

MERCOSUL - LATIN-AMERICA UNION

Ph. D. Mihai Floroiu*

Abstract

Since the beginning of the 1990s, integration between countries has increased at supranational level in view of social and economic progress, with major economic blocs making decisions to go beyond national borders. Facing this new reality, South American States also joined in this type of integration, creating the Mercosul (Southern Common Market), as the main economic bloc in Latin America which comprises Brazil, Argentina, Uruguay, Paraguay and Venezuela, which came into operation in 1991, after the Treaty of Asunción, featuring an economic bloc whose main principle was free trade between members. Mercosul has approximately 300 million people and generates a GDP (Gross Domestic Product) of \$ 1.1 trillion and aims to strengthen economic and commercial spaces, seeking a commercial growth for intensified economic rise of its members States, as it follows a global trend, most likely as the European Union. This paper will highlight how the Mercosul member States tried to recreate in Latin America a similar integration concept as in Europe, via commercial cooperation leading to economical and, possibly, political integration, aiming thus at regional development, scientific and productive integration and institutional development.

Keywords: Mercosul, regional development, integration, sovereignty, Latin America

The 1990 represented an increased social and economic integration between countries at supranational level, by political and economical decisions that went beyond national borders), *i.e.* economic blocs.

In general, integration schemes for economic blocks (Balassa 2013) are classified according to the extent and degree of the existing economic cooperation and can be distinguished as follows:

- **Free Trade Zones:** principle of removing barriers to movement of goods, in particular the collection of import duties between the participating countries. Eventually they may involve the removal of barriers to the movement of services and capital. This is the case, for example, of the Free Trade Agreement between Mexico, the United States and Canada (NAFTA);

- **Customs Unions:** In addition to eliminating barriers to the movement of factors of production, a common tariff policy is adopted towards third countries – *i.e.* all States Parties have a common external tariff. Since there is

* Head of the Department of Juridical Sciences of the Faculty of Juridical, Social and Political Sciences, „Dunarea de Jos” University of Galati, mihai.floroiu@ugal.ro

PUBLIC ADMINISTRATION & REGIONAL STUDIES

7th Year, No.1 (13) – 2014

Galati University Press, ISSN 2065 -1759

a higher degree of integration, are also conceived common trade policy instruments in different sectors;

- **Common Markets:** In addition to a common trade policy, its members advance the coordination of sectoral policies, including increasing the free movement of persons and production factors. The establishment of a common market also implies the harmonization of the legislation on key areas such as community rules for the customs clearance of goods, sanitary and phytosanitary controls, extrazonal trade protection and the provision of incentives to production;

- **Monetary Unions:** Assumed in addition to the Common Market, by the adoption of a common monetary policy and a single currency;

- **Political Unions:** Suggested to go beyond monetary union, throughout the harmonization of foreign policy, security and interior and even the adoption of a specific common Constitutional Treaty.

Facing the new reality, South America also joined this type of integration, by creating the MERCOSUL, as the main economic bloc in Latin America, comprising Brazil, Argentina, Uruguay, Paraguay and Venezuela. MERCOSUL - the Southern Common Market, which started from a cooperation between Brazil and Argentina, has as main feature the principle of free trade, currently housing approximately 200 million people and generating a GDP of 1.1 trillion dollars.

Historically, the creation of MERCOSUL began in 1985. This was the moment that Brazil and Argentina began trade negotiations with the aim of forming a regional market. In the historical context of this period, the society was marked by the democratization of both countries and the Presidents José Sarney from Brasil and Raul Afonsín from Argentina signed on November 30th, 1985, the Declaration of Iguacu. In that document, the leaders of Brazil and Argentina stressed out the importance of consolidating the democratic process and the joint efforts for the defense of common interests in international forums. To reaffirm the desire to bring the two economies, they created a Joint Commission on Bilateral Cooperation and Integration, which had to formulate proposals for integration between Brazil and Argentina and whose results led to the signature in Buenos Aires, on July 29th 1986, of the Minutes for the Argentine-Brazilian Integration. In this agreement, Brazil and Argentina agreed to fulfill the Economic Cooperation and Integration Program (PICE), by means of sectoral protocols, focused on the integration of specific productive sectors. The objective of the program was to open, selectively, Brazilian and Argentine national markets and stimulate the complementarity of these two economies, in order to allow conditions to adapt to the new private economic environment agents.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

7th Year, No.1 (13) – 2014

Galati University Press, ISSN 2065 -1759

The expansion of trade between Brazil and Argentina boosted the signing of the Treaty of Integration, Cooperation and Development, on November 29th 1988. With that agreement, the two countries established a period of ten years for the formation of a common economic space, by elimination of tariff and non-tariff barriers and the development of common policies.

The objective of the Treaty of Integration, Cooperation and Development was reaffirmed by Presidents Fernando Collor de Mello of Brazil and Carlos Saúl Menem of Argentina with the signing of the Act of Buenos Aires, on July 6th, 1990, despite the fact that the methodology for the creation of a common market has changed, as the Act of Buenos Aires decreased the deadline stipulated by the Treaty of 1988 which established the date of December 31, 1994 for the settlement of a common market between Brazil and Argentina to 1991. The acceleration of economic integration strategy occurred in time when Brazil and Argentina went through economic reforms based on trade liberalization. Thus, the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Eastern Republic of Uruguay signed on March 26th, 1991 the Treaty of Asuncion that created MERCOSUL. Subsequently, Venezuela joined this space of free exchange in 2007 and states like Bolivia, Chile, Peru, Colombia and Ecuador have become associated.

MERCOSUL aims to strengthen economic and commercial cooperation, seeking a commercial growth for intensifying economic progress, following a global trend, like the European Union. The States Parties which have formed MERCOSUL share values expressed in their democratic societies, such as protection of freedoms and of fundamental human rights, environmental protection and sustainable development, sharing also their commitment to the consolidation of democracy, legal security and fighting poverty by economic development and social equity. With this fundamental basis, the partners sought the expansion of dimensions of their national markets through integration, which is instrumental in accelerating their economic progress.

MERCOSUL aims to establish a common market among its participating States, seeking to free movement of goods, services and factors of production between countries of the bloc. Also, the establishment of a common external tariff, the adoption of a common commercial policy towards third States or groups of States and the coordination of positions in regional and international economic and trade forums, the coordination of macroeconomic and sectoral policies between participating states, the commitment of the countries that make up the group to harmonize their legislation in the relevant areas, intend to strengthen the integration process, as a factor of order and social progress.

Integration space – Political MERCOSUL

MERCOSUL builds the foundations that frame the relations between the States Parties and is, above all, a Political Agreement. Thus, MERCOSUL is a factor of stability in the region, as it generates a web of relationships and interests which make deeper connections, both at economic and political levels, and counteracts tendencies toward fragmentation. Policymakers, workers and entrepreneurs consider it a framework for discussion of many complex facts, which can be considered as topics of common interest.

The first idea of political integration came during the Summit of Ouro Preto, held in Brazil in December 1994, where a Protocol was approved in addition to the Treaty of Asuncion, establishing the institutional structure of MERCOSUL, granting it with its international legal personality and concluding the transition period and the fundamental instruments that were adopted in relation to the common commercial policy featuring the Customs Union.

Two years later, at the tenth meeting of the Common Market Council, held in San Luis on June 25th, 1996 a "*Presidential Statement on Democratic Commitment in MERCOSUL*" was signed, as well as the Protocol of Accession of Bolivia and Chile to that Statement, as instrument that translates the full observance of democratic institutions by a member State, as prerequisite for the existence and development of MERCOSUL. Later on, at the Meeting of the Common Market Council held in July 1998, the Presidents of MERCOSUL Member States and the Republics of Bolivia and Chile signed the "*Protocol of Ushuaia on Democratic Commitment.*" In this document the six countries recognized the validity of democratic institutions as an essential condition for the existence and development of integration processes, stating that any alteration of the democratic order is an unacceptable obstacle to the continuity of the process of regional integration. At this meeting was also signed the "*Political Declaration of MERCOSUL, Bolivia and Chile as a Peace Zone*", in which the six countries stated that peace is essential for the development and continuity of the regional integration process. In this respect, the six governments have agreed, among other things, to strengthen mechanisms for consultation and cooperation on existing security issues and defense between their countries, promote their progressive coordination and make joint efforts in the relevant forums to advance the consolidation of International agreements focused on achieving the objective of non-proliferation and nuclear disarmament.

Alongside the political integration process, as a generating factor, besides the rules set on trade in goods, other instruments were negotiated in areas such as services and movement of workers, aiming at developing several cooperation activities by involving coordination of policies, regulatory harmonization and joint projects in various areas, such as with respect to technical regulations, sanitary and phytosanitary regulations, in order to facilitate the free intrazonal movement. A good example of political integration throughout an economical instrument is the Fund for Structural Convergence of MERCOSUL¹ which aims to promote increased competitiveness of smaller economies and less developed regions, fostering social cohesion and strengthening the physical integration through infrastructure works. On its way to the deepening of the integration process, the treatment of asymmetries in its internal agenda occupies a relevant and transversal position. This Fund was designed to finance programs aiming to promote structural convergence, develop competitiveness, promote social cohesion - especially the smaller economies and less developed regions - and to support the functioning of the institutional structure and the strengthening of the integration process. The creation of this Fund can be considered as a milestone in the integration process, which has a duration of ten years minimum, as this tool, which aims to provide more structural and long-term responses in addressing disparities formed with annual contributions of the States Parties totaling one hundred million dollars, while Argentina contributes with 27%, Brazil with 70%, Paraguay and Uruguay with 1% and respectively 2%, the resources are distributed inversely proportional to the amount of contributions made, as follows - Paraguay: 48%, Uruguay 32%, Argentina 10%, Brazil 10%.

Taking into account the objectives set out, funds were to be provided for the Structural Convergence Programme, the Competitiveness and Development Programme, the Social Cohesion Programme and the Programme for Strengthening Institutional Structure and Process Integration.

Economical MERCOSUL

MERCOSUL is characterized by open regionalization. This means that the creation of the bloc aims not only to the increase of intra-area trade, but also at the encouragement to trade with third countries. Attracting investment is one of the central objectives of MERCOSUL. In an

¹ [http:// www.mercosur.int/focem /](http://www.mercosur.int/focem/) - accessed on 08.04.2014

international scenario as competitive as this, where countries strive to offer incentives to investors, the pursuit and consolidation of the Customs Union will tend to be fundamentally an advantage as this will provide a very suitable framework to attract foreign capital, in spite of all the difficulties arising from the difficult international economic scenario and disadvantages of the processes of restructuring of national economies. As such, MERCOSUL has been one of the leading recipients of foreign investment in Latin America.

In other words, the search for the integration process occurs on a realistic and flexible basis, as the process adapted itself to the realities of the four countries that initially constituted it. With this in mind, in the year 2000, the MERCOSUL Member States decided to start a new stage of the regional integration process, whose primary goal was to consolidate the path to Customs Union at the sub-regional level.

The confirmation and the consolidation of MERCOSUL as a Customs Union between the four initial countries involved administering sub-regional trade policies, overcoming the unilateral actions of this nature, ensuring predictable behaviors and not detrimental to the respective partners. Therefore, the entry into force of a Common External Tariff (CET) meant that any changes in the levels of protection of the productive sectors had to be achieved on a consensual manner, providing an environment of greater predictability and certainty for decision-making of economic agents. Thus, the Governments of MERCOSUL Member States recognized the role of central convergence and macroeconomic coordination in deepening integration process. Thereafter, States Parties decided to prioritize the treatment of the following themes:

- streamlining border procedures;
- convergence of the common external tariff and elimination of its dual collection ;
- adoption of criteria for the distribution of customs revenue of States Parties;
- institutional strengthening;
- foreign relations of the bloc with other blocs or countries.

The Customs Union, as an economical growth factor, meant the adoption of the MERCOSUL Customs Code, the online interconnectivity of existing customs administration in MERCOSUL Member States and the creation of a mechanism for the distribution of income, with the definition of terms and procedures. Thereafter, progress was made in the online interconnection of Customs of the four initial States Parties, currently

working, as well as making available a System for Information and Exchange of Customs Records¹ in each of the MERCOSUL countries.

International organizational structure

MERCOSUL started as a bilateral initiative to increase trade as factor of progress. When international legal personality was given to this structure, it became a new subject of international law, a derived one but, nevertheless, an important one, because of its size and importance in Latin America.

The main decision-making bodies that make up the institutional structure of MERCOSUL are the Common Market Council (CMC), the Common Market Group (GMC) and the MERCOSUL Trade Commission (CCM), as follows:

- **CMC - the Common Market Council** is the highest decision-making body and the Common Market. It is composed of the Ministers of Foreign Affairs and the Economy of each of the States Parties. The Board makes decisions to ensure compliance with the objectives set by the Treaty of Asuncion;
- **GMC - the Common Market Group** is the executive body of the Common Market. The GMC is pronounced upon resolutions that are binding on those States Parties;
- **CCM - MERCOSUL Trade Commission** is the body responsible for assisting the Common Market Group. It is comprised of four members and four alternates from each State Party and coordinated by the Ministries of Foreign Affairs. Among its functions are ensuring the application of common trade policy instruments, regulating the intra-MERCOSUL trade and with third countries and international organizations. Guidelines made by CCM are binding on those States Parties.

In addition to these organs, one should mention the MERCOSUL Parliament, the Committee of Permanent Representatives of MERCOSUL, the Meetings of Ministers, the Forum of Political Consultation and Coordination, Economic and Social Consultative Forum, the Working Groups, the Specialized Meeting the Committee, the Ad Hoc Groups, Groups, the Socio-Labour Commission and the Technical Committees.

Instead of a conclusion

The goal of MERCOSUL is to be one Common Market. Based on the fact that free movement of goods, services and factors of production, through the elimination of tariff and non-tariff barriers to the movement of

¹ INDIRA System - <http://www.afip.gob.ar/english/indira.asp> - accessed on 07.04.2014

productive factors barriers was somewhat achieved, the establishment of a Common External Tariff (CET) and the adoption of a common commercial policy towards third States or groups of States was also accomplished. At the same time, the coordination of macroeconomic and sectoral policies between States Parties - in terms of foreign trade, agricultural, industrial, fiscal, monetary, foreign exchange and capital, services, customs, transport and communications among others is in place. This action is completed with the commitment of States Parties to harmonize their legislation in certain areas. Thus one could say that, in practice, MERCOSUL can be considered today a free trade area and a customs union in the consolidation phase, with good perspectives of becoming a common market, *i.e* the Latin America Union.

At the same time, one should pay more attention to other points of interest of MERCOSUL State Parties, as, going towards real integration, new domains of interest arise, such as family agriculture, development of R&D, cooperation in energy area (petrol, biofuels and water supply), aiming at creating a social MERCOSUL, where human rights are protected and guaranteed.

Bibliography

1. Balassa, B. (2013) *The Theory of Economic Integration* (Routledge Revivals)
2. Jaguaribe, H., Vasconcelos, A. (2003) *The European Union, MERCOSUL and the New World Order*, London: Psychology Press
3. Figueiras, M.S. (1996) *O MERCOSUL no Contexto Latino-Americano*, Sao Paulo: Atlas
4. Franca Filho, M.T., Lixinski, L., Olmos Giupponi, M.B. (2010) *The Law of MERCOSUL*, Oxford: Hart Publishing
5. INDIRA System - <http://www.afip.gob.ar/english/indira.asp> - accessed on 07.04.2014
6. [http:// www.mercosur.int/focem /](http://www.mercosur.int/focem/) - accessed on 08.04.2014