

# Mercosul and South American Responses to Regional Integration

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The success of the Common Market of the South, or Mercosul, as a strategy to achieve trade, economic, political, cultural, and social integration of Argentina, Brazil, Paraguay, and Uruguay requires the assimilation of an effectively regional focus by the four member countries. There is no alternative: either Mercosul becomes an essential part of the life and the decision making of the four countries, or it will collapse as the project of deep integration outlined in the Treaty of Asunción of 1991 and ratified by Protocol of Ouro Preto of 1994. This paper will consider the problems faced by Mercosul today and their origins, as well as proposals put forward by governmental institutions and civil society organizations.

## **The 1990s: Straying from the Road**

The proposal for the economic and trade integration in the Southern Cone emerged in the mid-1980s in the context of political redemocratization and the bankruptcy of the national-developmental model. Put forth initially by the Sarney government in Brazil and the Alfonsín government in Argentina in 1985–1986, the economic integration proposal was above all a political proposal that sought to break with decades of disputes and rivalries, some inherited from the colonial period. Regional integration was to be added to the process of democratization in the region and was understood to be part of the region's strategy for participation in the world economy.

The original Argentina-Brazil agreement provided for a negotiated process of selective integration, which gradually grew to incorporate various economic sectors. Unfortunately, the accelerating rate of inflation and the weight of the external debt in both countries made the execution of the integration plan difficult and led to the adoption of national anti-inflation policies that impeded

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the growth of bilateral trade and integration of the two economies. Financial instability and high rates of inflation resulted in political weakness of the national governments. In 1989, the two outgoing presidents were unable to pick their successors and were followed by politicians—Menem in Argentina and Collor in Brazil—with populist-demagogic characteristics and of doubtful capacity. Both were from less-developed regions within their own countries and, to win, had allied themselves with political forces that supported the deregulated and open-economy neoliberal model for the region.

With the Treaty of Asunción of 1991, the new governments, along with the government of Paraguay and Uruguay, proposed to accelerate the trade and integration through the creation of the Common Market of the South (Mercosul) and establishment of a process of programmed, across-the-board tariff reductions that would lead to a free trade zone in three years (from 1992 to 1994) and to a customs union in ten years. The choice of a customs union, with a possible common market in the future, in contrast to the North American Free Trade Area (NAFTA), revealed the continuing influence of developmentalist economics, still strong in Brazil, and reflected a decision to participate in the world economy under more protected conditions and also with greater capacity to increase the scale of production and to make the region more attractive for foreign investment.

During Mercosul's first stage, from 1992 to 1994, the program of sub-regional trade liberalization coexisted with the adoption of neoliberal adjustment measures to combat inflation and monetary instability in accord with the recipes of the Washington Consensus (in Argentina in 1992 and in Brazil in 1994). These policies translated into a set of macroeconomic, budgetary, and exchange-rate measures that increased external dependence and vulnerability and generated strong disequilibria in the external trade balance of the region, especially with the two largest trade partners, the United States and the European Union.

Within the neoliberal logic, specialization and cooperation in trade and production in Mercosul were determined by interfirm relations, including mergers, acquisitions, licensing, and franchises, and the participation of the firms in world productive chains, rather than by public policy. Between 1990 and 1998 intra-Mercosul trade jumped from U.S. \$4 billion to U.S. \$20 billion, with 60 percent of this volume coming from trade within and between firms. After 1995, Mercosul's external negotiations, for the Free Trade Area of the Americas, with the Andean Community of Nations, and with the European Union, shaped its negotiating agenda. The more inward-looking themes of macroeconomic policy and productive deepening remained on the second and third levels relative to the external agenda. For example, free trade in goods and services was promoted in accord with the interests of

firms and the external negotiating agenda and not necessarily as the first step to deepening the integration of Mercosul.

Just as the early success of Mercosul in the transition phase through 1994 was facilitated by the growth of intrabloc trade, in the following period, 1995–1998, further success was hindered by the lack of a macroeconomic policy harmonization process. The Mercosul countries were left vulnerable to external shocks and were adversely affected by the financial crises of Mexico, Asia, and Russia. The major result was the unilateral devaluation by Brazil in January 1999, which in turn caused an abrupt drop in trade within Mercosul and had negative impacts over the other partners. The Mercosul negotiations then stagnated and were on the verge of breakdown on the eve of the 2001 devaluation in Argentina and the associated economic, social, and political crises. In 2002, the negotiating process resumed, but continued without progress. It was evident that Mercosul's fragility and difficulty in surviving as a bloc required that its integration be deepened, which could come only with changes in the overall management of the Mercosul process.

### **Mercosul as a Strategic Project**

In 2003, with the victory in Brazil of the opposition presidential candidate Luis Inacio Lula da Silva, the Brazilian government began to argue for the consolidation and deepening of Mercosul and for a return to the strategic and geopolitical vision of Mercosul as a base for other negotiations. These positions were reinforced by Argentine president Eduardo Duhalde and were consolidated as policy with the election of Nestor Kirchner as his successor. In Paraguay a political crisis ended with the election of Nicanor Duarte, also a defender of the deepening of Mercosul, as president. With three popular-democratic governments in the three countries, political and social themes received greater emphasis in Mercosul, as did the need to implement regional development policies based on the integration of productive chains across the member countries.

The new political and social emphasis received a push forward with the "Consensus of Buenos Aires" document (in contrast to the Washington Consensus) signed by Brazil and Argentina on October 16, 2003, in Buenos Aires during a visit of Brazil's President Lula. The document reaffirmed regional integration as a strategy for the participation of the region in the globalized economy, as well as the need to move ahead with South American integration, "having as an objective a development model that brings together growth, social justice, and dignity of citizens" and was accompanied by seven specialized bilateral accords. In the labor area, the two presidents recognized the need to implement a production policy in Mercosul and declared their

“conviction that decent work, in the manner conceived of by the International Labor Organization, constitutes the most effective instrument to promote the living conditions of our peoples and their participation in the fruits of human and material progress.” The firming up of these initiatives would come in 2002 with the approval of the “Plan of Work 2004–2006” at the twenty-fifth meeting of the Mercosul presidents in Montevideo. The document established an ambitious plan to move forward in the direction of a common market, as well as the creation of a common parliament and treatment of social and citizens’ rights themes. For the first time, a document adopted at this level incorporated suggestions and proposals from civil society, presented by Mercosul’s Economic and Social Consultation Forum (FCES), which is the part of the official structure of Mercosul charged with representing civil society of the four countries and is made up of the central labor confederations, business organizations, and representatives of the third sector, especially cooperatives,

The documents adopted and their contents suggest that Mercosul is at a historic moment that presents a unique opportunity for the transformation of Mercosul into a tool for constructing an economic integration characterized by solidarity and complementarity and capable of strengthening the region in the world, contributing to the creation of a regional common market, and improving the standard of living and of citizenship in the member countries. On the other hand, many of the positions adopted continue in the field of rhetoric and the real situation of the bloc is very fragile. Many of the measures and processes adopted are not yet implemented, leading to trade and economic uncertainty. The trade imbalances are not resolved in ways that might promote the integration of production, and the sectoral conflicts are resolved at a higher level than should be required, making progress toward deeper integration more difficult.

### **Problems and Proposals**

The first problem to be faced in the revitalization of Mercosul is the correction of existing flaws in the free trade zone and the customs union processes. This means not only resolving the unresolved questions, such as elimination of nontariff barriers, elimination of the holes in the common external tariff, adoption of a customs code, integration of the phytosanitary rules and customs procedures, and so forth, but also the incorporation of the costs of integration into the national policies of the partner states. Decisions made at the Mercosul level need to be implemented through their absorption into national policies. Sometimes these decisions run into legislative and administrative impediments. In other cases, decisions already approved are

subverted by unilateral measures targeting sectoral and local problems. It is imperative to promote awareness among governmental functionaries of the need to respect the overall plan and its achievements, as well as an understanding of the degree of interdependence among the member states and the economic and political benefits of an integration project like Mercosul, so that a true culture of interaction with neighboring countries can be created.

In the economic field, it is necessary to update the macroeconomic agenda, developing processes that permit gradual integration of exchange-rate, tax, and budget policies, as well as policies to attract foreign investment. It is important to adopt an agenda that is in line with the new focus and that is not subordinated to the competing vision of Mercosul as an export platform. The economic agenda should include the development of production and the generation of a regional consumption market. Attraction of foreign investment should be based in the establishment of common parameters and rules to limit competition by tax cuts and the growth only of intrafirm trade and that will strengthen a common external trade policy and support the distribution of the gains from trade. It is necessary to define the space and rules of negotiation and also to create financing instruments.

Currently under consideration is the creation of a "structural fund" to lessen the asymmetries because of uneven development within Mercosul, especially with regard to the smaller countries and the less-developed regions within countries, to be financed by the common external tariff or from the national budgets. At the same time, Brazil's National Bank for Economic Development (BNDES) is open to the financing of firms in the other Mercosul countries, initially in the auto parts sector, and is considering the modification of some of its rules. These are political decisions, motivated by the demands of the smaller partner states and by the decision of the Lula government to recognize the imbalances with Mercosul. It is necessary to be more daring in the debate and to consider creating something broader, such as, for example, a Mercosul financing mechanism like that of the BNDES.

Institutionalization, or the creation of supranational Mercosul institutions is a basic question with implications for the quality of the functioning of Mercosul, for the degree of engagement of the four partners, and for the external credibility of the bloc. With the passage of time, the concerns about loss of sovereignty and about the member states as obstacles to the strengthening of Mercosul institutions have become increasingly inconsistent with the institutional reality. One notes the creation of the Commission of Permanent Representatives of Mercosul, the establishment of the Tribunal of Mercosul, located in Paraguay, and the parliamentary debates over the creation of the Parliament of Mercosul; however, there continues to be strong resistance to institutionalization.

Arguing in favor of stronger and more permanent Mercosul institutions, Ambassador Jose Botafogo Goncalves commented that “the argument for flexibility, lightness, and agility of Mercosul institutions lost any appeal due to the simple fact that in recent years the group has experienced a fundamental crisis of credibility due to lack of coordination and paralysis. Without underestimating the magnitude of the negative factors that unleashed the current crisis, . . . the fact is that the existing institutional structure of Mercosul has demonstrated only very limited ability to avoid, soften, or remedy impasses and conflicts between the governments. The virtue of institutional lightness in a moment of bonanza is transformed into the vice of inoperability in a moment of crisis . . . the importance of Mercosul will be directly proportional to achievements of its common rules and accords in a wide variety of areas, as well as to the maturation and solidness of the institutions of the bloc” (Goncalves 2002).

In addition to the increasing the degree of supranationality, it is necessary to restructure negotiating frameworks to align them with the new objectives to reduce the degree of fragmentation and dispersion existing today and guarantee the adequate functioning of the existing organs. To this end, in the meeting with the Common Market Group, in Brasilia in October 2004, Mercosul’s FCES presented a working paper (“Pauta para a analise da reforma institucional do Mercosul”) that highlighted the active role that the partner states should have in the process of the integration. The FCES also recommend the monitoring of the sectoral accords, the creation of funds for financing for the implementation of the projects recommended by the Forums of Competitiveness and Productive Integration Forums, and the inclusion of cooperative units of production, of commerce, and of family production in the programs of the Competitiveness Forums.

In the area of institutional reform itself, the FCES had previously adopted, in its plenary of December 2001, a proposal presented earlier by the labor movements of the Southern Cone to the Mercosul presidents in Ouro Preto in 1994 for the “creation of two commissions . . . a Commission for Productive Development and Infrastructure, that would bring together the sub-working groups that deal with industry, agriculture, and energy issues, etc., and a Commission for Social Development that would bring together the sub-working groups and specialized conferences that consider social themes” (Recommendation 01/01). Beyond these recommendations to bring groups together, the reform of the negotiating structures make room for emerging, new areas and arenas for debate, which many times do not enjoy adequate space relative to their political and social potential, such as Mercocidades (Mercosul cities), which has outgrown its home in the Specialized Conference of Cities.

Finally, it is necessary to note that the challenges of integration are not the exclusive task of only the national governments, but also of regional and local governments and organized civil society. Cities have an important role to play, including undertaking actions that permit more integration of networks of production and trade, especially among small and medium-sized firms; promoting programs and cooperative activities in social, cultural, and political areas; and, especially, communicating to the society what is Mercosul, what are its problems, and what are its potential benefits for the citizenry.

**Note**

Translated by Russell E. Smith.

**References**

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