

# Mercosur's future in the context of multilateral and regional trade liberalization

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**ABSTRACT :** Mercosur remains, after the transition period from 1991-94, an incomplete free trade zone and a prospective customs union, albeit after 1995 it has assumed international juridical personality, and keeps its commitment to attain common market status as soon as possible. Despite its institutional shortcomings, and the residual conflicting political and trade interests among member countries more recently, Mercosur performed quite well. It has been stimulating intra and extra-trade, contributing more to trade creation than trade diversion, and promoting technological modernization and political stability in member and associated countries. Mercosur acts also as a powerful coordinating mechanism for the member countries in negotiations in WTO bodies and in discussion on a Free Trade Area of the Americas (FTAA). Nevertheless, it does not intend to reproduce EU-like heavy institutional machinery or highly subsidized instruments, such as the Common Agricultural Policy or industrial subsidies.

Note: The opinions and arguments presented here are solely those of the author, and are expressed on his own behalf. They do not necessarily represent the positions or current policies of the Brazilian Ministry of Foreign Relations and/or the Brazilian government.

## **1. Mercosur's future: not a free trade zone, nor an integrated common market: instead, a hybrid animal**

Mercosur was NOT created by the 1991 Treaty of Asuncion. It was created only in a formal sense by this instrument. Mercosur is the result of a previous integration initiative, which was established bilaterally between Brazil and Argentina in the mid-1980s. (For the historical record, it could even be considered a reconstruction of the much older customs union formally established between the two countries in 1941. This economic initiative, open to other Southern Cone neighbors, was not implemented, because of the circumstances of the war, and the differing political views in Argentina and Brazil.)

Indeed, Mercosur could be described as a simple by-product of this special relationship, a mere side-effect of a political decision to enhance, expedite and modify the character of the bilateral integration process started with the Integration and Economic Cooperation Program (PICE) of 1986 and by the Integration Treaty of 1988, both signed by the presidents of Argentina and Brazil, Raul Alfonsin and José Sarney. The 1988 bilateral Treaty of Integration already aimed at achieving a common market in a ten-year period, through a flexible and administered process of sectoral protocols and by means of a gradual reduction in the tariffs and other barriers to reciprocal trade. In short, it was a *dirigiste* but cautious approach, which was a response to higher-level political decisions and corresponded to an ideology of industrial promotion, protection, as well as state-led trade liberalization.

The real shift in the integration process was performed by presidents Carlos Menem and Fernando Collor, by means of the Buenos Aires Act of July 1990, which truly launched the negotiations that led to Mercosur. If we examine the fine print of the Treaty of Asuncion, we find that the exact, *ipsis-litteris*, draft-model of the Buenos Aires Act of 1990, together with all its mechanisms and instruments to achieve a common market, which were, and are, different from those established in 1988. In short, the Buenos Aires Act of 1990 and the Asuncion Treaty of 1991 opted for a *liberal, free-trade approach* of the integration process, no longer flexible and gradual, as intended in the former sectoral agreements, but with a strict four years transition period for the completion of a common market. This program corresponded to a *free-trade* ideology, which did not fit easily into the so-called "Washington consensus", but did in fact correspond to a retreat of the government from its formerly active role in the economic domain.

The new features of the integration process – which were a real departure from the previous scheme, known by old-style Althusserians as a *rupture epysthémologique* – can also be connected, on the one hand, to domestic developments in the political *rapport-de-forces* inside the member countries, and on the other hand to outside developments in the international environment at the beginning of the 1990s. These developments were characterized by the free-trade fever after the Canada-US FTA, the unilateralist and mini-lateralist approaches actively promoted by Washington, the growing protectionist and restrictive measures adopted in developed markets (with a proliferation of VERs, OMAs and anti-dumping rulings), the real prospect of a “fortress-Europe” following the Single Act of 1986, and the frustrating Uruguay Round of the GATT before and after the Brussels ministerial conference.

The political decision to create Mercosur was a response to all of those challenges, yet it cannot be identified as a mere *fuite-en-avant*, or a diversionist approach in the face of external difficulties. The instruments and mechanisms previously conceived and established by the two big countries (in the Buenos Aires Act), and confirmed thereafter in the quadrilateral agreement of Asuncion were very carefully crafted to respond to pragmatic preoccupations of both institutional and operational natures. First, there was no common framework for the adoption and enforcement of the trade liberalization measures. Instead, shared decisions derived from an intergovernmental decision-making process had to be implemented nationally, i.e. by the individual member countries. Second, the decision-making or technical bodies in the quadrilateral integration process were NOT bodies of the Mercosur or of any common political structure. They were bodies of the Treaty of Asuncion itself, with all the shortcomings derived from that feature. Third, there was no sovereignty retreat by Mercosur member countries, as the process followed an *intergovernmental* approach (that is, international law), instead of one characterized by supranationality, as in the *droit communautaire* of the European Community.

To respond to the question why Mercosur should be considered a hybrid animal, we have to consider the premises on which the Mercosur project was based: the objectives of its foundational instrument, that is, the establishment of a sub-regional common market.

If Mercosur had met the goals set out in Article 1 of the Treaty of Asuncion, the common market would have begun operation on January 1<sup>st</sup>, 1995. It is common knowledge that this did not occur. An optimistic reading of this diplomatic instrument and of the integration process itself suggests that these aims will be reached in a complementary, “second transitional”

stage, once there is compliance with the time frames of the convergence regime for the various “sensitive” sectors and once the minimum requirements for the common market have been met. This would entail, among other things, the effective implementation of a Common External Tariff (CET) and, if necessary, the eventual establishment of truly “common” exceptions to the CET, rather than national lists of exceptions as in fact occurred. Ideally, all non-tariff barriers and similar measures should have been eliminated.

From this perspective, macroeconomic policy coordination also implies that the Mercosur countries must define the central areas of cooperation in order to enable them to open their markets to all goods and services from the member countries, including those areas related to the transborder supply of services, and mutual recognition of norms and specific technical regulations.

Given the absence of clear progress in these areas, it was hoped that the countries could at least have defined a system of exchange rate parities with minimum or perhaps no bands of variation between their currencies, and that they could have harmonized the most pertinent elements of their national legislation on market access. These would be the minimum requirements for the establishment of a broad joint economic space in the territory shared by the Mercosur countries. On this basis it would be possible to advance towards the progressive consolidation and deepening of the integration process, in pursuit of more advanced stages of economic, political and social relations.

It can be expected that this scenario will not materialize in the early years of the 21st century. Its progressive development, however, is part of Mercosur’s internal organization. It would lead to a Mercosur that would be more in line with the pattern of integration adopted by the European Common Market at the end of the 1960s. The original signatories of the Treaty of Rome completed at that time their customs union and established thereafter relatively peaceful co-existence between a community vocation (embodied by the Commission, but constrained by the representatives of the member states in the ministerial councils) and an inter-governmental form of monitoring, consubstantiated with the political role assigned to the Committee of Permanent Representatives (COREPER), which had not been anticipated during the first institutional design. In other words, even the most “communal” of the world’s integration initiatives was always tempered by the necessary inter-governmental, or national, control. In the specific case of Mercosur, the doubts and obstacles that have arisen concerning the deepening of

the integration process do not seem to be derived from superficial “sovereignist” or petty nationalist (and even, as some believe, “chauvinist”) reactions. In reality, they stem from particular political forces or schools of thought, in addition to “threatened” sector interests that curb the inevitable progress toward greater trade liberalization between the members. These trends are not necessarily defined at a national level, but they exist in each of the member countries. In short, in regards to the basic nature of the Mercosur, it is not a free trade zone, nor an integrated common market. Instead, it is a new and evolving hybrid animal. How do we explain these somewhat contradictory assessments and how do we cope with the incomplete and ever-changing nature of Mercosur?

The key to understanding not only Mercosur’s place in the political and economical structure of Latin American southern cone politics, but also its role in the international relations of the region, is to realize that it is a result of a *political decision* made at the highest level, which is dependent more upon political will than economic realities. This line of reasoning could be challenged, however, as one might argue that the European process is also a result of a political decision by the original six member countries, and the subsequent integration of other states was also the result of a political decision taken at the highest level. The conditions and context of each process were nevertheless very different. Two important factors are, on the one hand, the truly economic complementarity and somewhat homogeneous socio-economic features of the European countries, and on the other hand, the naturally intense trade, services and capital flows that prevail and exist in the region, irrespective of any formal liberalization arrangements.

If there were some central features of the national economies of the Mercosur member countries *before* the political decision to integrate, these could be represented, first and foremost, by the structural asymmetries in their industrial development levels and by the outward, non-regionally integrated, orientation of their trade flows. Mercosur process has done much to correct these historical imbalances, yet it could redeem and redress structural *desequilibria* in its short life-span. To consolidate the argument, let us establish that due to its structural characteristics and conjuncture problems (the various paces and differing economic nature adopted in the stabilization programs of each member country), in the foreseeable future, Mercosur seems “condemned” to remain this type of “surrealistic” animal: an incomplete free-trade zone with a highly flawed customs union, promise for an eventual common market and a hypothetical common currency area in the distant future.

There is no political pessimism in this kind of evaluation, rather a modest realism based on economic arguments and on lessons from the past historical record of the integration in the region. In previous experiences, any bold moves towards a faster pace of trade and economic integration encountered the structural limits of the national economies: internal market disintegration, challenges to industrial competitiveness and current accounts instability which exacerbated the natural fragilities of those economies. The first lesson to be drawn from previously frustrating experiences with the Latin American integration processes is that it is better to move slowly than to become stuck in a bureaucratic jungle of unfulfilled compromises and unfulfilling engagements.

## **2. Lessons from European integration, or which lessons NOT to be learned: Do not build an institutional gothic cathedral; do not establish a full-fledged Common Agricultural Policy**

One of the key problems of Mercosur's future political development would be the "leap" involved in adopting supranational community institutions. This transition will likely occur, since Mercosur is seen as an embryo for more advanced stages of integration. Obviously, this matter presents greater intrinsic difficulties since it naturally brings together concerns about state sovereignty and national interest. The main question centers on the possibility of forming a community-level institutional order for Mercosur, something that many authors consider natural on the basis of a concept of community law similar to that derived from the European experience of economic and political integration.

To put it another way, is it advisable or even necessary that Mercosur adopt something similar to the European model, in order to receive a certain kind of community label, a supranational "certificate of quality"? Not only do the "Mercocrats" raise obstacles to this "European" perspective, there are also structural and, in particular, political impediments in the member countries. In principle the national political leaders accept the premises of community building: the cession of sovereignty, the delegation or transference of authority, and the constraints to the sovereign will of the state. However, the effective internationalization of their

economies and an active and accepted interdependence between the Mercosur countries still seems remote.

In this sense, the problem is apparently more practical than theoretical. The economists, who are the drivers of the integration process, at least in its practical aspects, feel differently about the notion of sovereignty than jurists and academics in general. What should be considered in evaluating the quality of a tendentially supranational undertaking such as Mercosur is to what extent a partial but growing renunciation of sovereignty by the member states will increase the “value” of the integration project and, consequently, the well-being of the groups involved in the process. In other words, attention should be paid to which forms and under what conditions an agreed cession of sovereignty would specifically help to secure substantially higher indices of economic and social development.

Consequently, in the present stage of sub-regional integration, the fact that the Mercosur countries have opted for inter-governmental structures, subject to rules of unanimity, can be considered the most appropriate choice. In this stage, the elimination of obstacles to the free movement of goods, services and productive factors, the effective implementation of the CET, and the progressive integration of the national economies do not seem to require supranational mechanisms and procedures that might compromise state sovereignty. Those objectives can be reached in this phase by coordinating national administrative measures and by harmonizing individual legislations. Although Mercosur’s objectives are similar both to those of the European Common Market and, with the passing of time, to those of the European Union (EU), Mercosur, in order to reach its present goals, does not need to copy the institutional system created by the Treaty of Rome and Maastricht Treaty. The current model is sufficient to grant a status of “international law personality” to Mercosur as member countries decided to establish, instead of supranationality, a framework for collective discipline that preserves the exercise of their respective national sovereignties.

The institutional structure of the Mercosur is certainly not a copy of the EU model, nor was it inspired by that more elaborate arrangement, despite some formal resemblance between the two. If we are to seek for some institutional European model for Mercosur, it would more likely to follow the model of the former Benelux, the successful intergovernmental integration experiment between Belgium, Netherlands and Luxembourg, established between 1944 and 1947, and later dissolved in the more ambitious and wider processes of the European Community

and of EU. For the time being, Mercosur intends to keep its institutional features, like those of the former Benelux, as a more structured political approach would surely entail facing a challenge to the pace of economic liberalization and a more complete integration.

That is perhaps the second lesson to be drawn from the current situation of Mercosur: One should not attempt to establish a concurrent source of power and a parallel decision-making body, in the form of a “political commission” as in Montevideo for instance, in addition to the already strained powers of the national bureaucracies. Political decisions must remain with the natural and original source of legitimacy in the Mercosur states: presidential leadership. Otherwise, the economic stabilization process in each country could be imperiled by the political instability brought about by the coercive nature of common decisions and directives adopted by a new kind of political body.

In the same token, Mercosur’s political and economical structures would not support the establishment of such a comprehensive sectoral policy as the Common Agricultural Policy (CAP) of the EC-EU. First of all, a Mercosur CAP would represent a *contradictio in adjecto*, as the socio-economic structures of the farm sector in the Mercosur countries do not fit in the European mold and consequently do not require the same sort of support measures. Secondly, budgetary constraints also would prohibit governments from establishing a program as costly as the Common Agricultural “Foolishness”, with all its distortions in market prices, distribution quotas and competition rules. There is no place in Mercosur for a market reserve that benefits the largest and richest farmers, in total disregard for external producers and multilateral trade rules.

Thirdly, and most importantly, the common and agreed upon objectives of economic policy for the agricultural sector in Mercosur are directed towards a fully integrated market and open behavior for the economic agents, not towards an anti-competitive and protectionist stance as in Europe. Even if Mercosur’s ratio of global commodity markets is not as important as those of the EU and NAFTA, it does not seem rational to add a new source of disruption in the multilateral trade system. The high level of protectionism, heavy quotas, tariff peaks, various non-tariff barriers, huge subsidies to production and, worse, generous export subsidies arising altogether from EU and US agricultural policies, already represent an unfair obstacle for Mercosur competitors and an indecent market exclusionary policy for all farm producers in developing countries.



There are, of course, lessons to be learned from the European experience, and these are in the competition and arbitration domains. A full scope competition and consumer policy needs to be developed in the commercial sector of the integration process. A litigation system that could be both quicker and more transparent than the current political mediation and ad-hoc arbitration mechanism administered under the Brasilia Protocol for Dispute Settlement (1991) must also be implemented. More generally, the highly-structured European political consultation and coordination mechanisms and Europe's decades-long experience in the field of macroeconomic policy coordination are commendable and deserve careful consideration in view of their possible adaptation to the Mercosur process. In any case, the Mercosur approach to these experiments must be a cautious one, as the European standard is not necessarily the *nec plus ultra* of the integration processes, nor are its specially-tailored mechanisms a kind of ready-to-wear costume able to fit anyone else needs, even in a potential common market European-style as the Mercosur.

Mercosur, in the light of frustrations accumulated by past experiences in the region since the 1950s, has to be considered a success, at least as a political endeavor. As an integration experiment, its achievements has been more mixed, and in fact it should be assessed as a partial success and as a sort of dynamic equilibrium between many types of institutional arrangements (as the table attached to this text illustrates).

### **3. Directions of Mercosur: soft deepening (inside), loose widening (in South America), no dilution (against some odds), yet a difficult consolidation (despite political will)**

Mercosur underwent its first transition phase between 1991 and 1994, when all the elements of a customs union, in preparation for the common market, had to be accomplished by the four member countries. These were the tariff descaltion (gradually) and the elimination of non-tariff barriers among member countries, which would enable the establishment of a free-trade zone. The definition of a Common External Tariff (CET) and the establishment of a common trade policy would imply the inauguration of a customs union. In fact, both sets of tasks were left unachieved. Not only did national exceptions to the CET remain in place, but also many "sensible products" were kept outside the reach of the internal trade liberalization -- not to mention freedom in services or harmonization of commercial legislation. In retrospect, four years

was a very short delay, compared to almost ten years for the European Community in the 1960s. This is particularly the case when one considers the absence of strict competition enforcement rules, as provided by the European Court of Justice but absent in Mercosur.

The Ouro Preto Protocol did not truly create new institutions (even the Trade Commission was a natural development of the first transition phase) and it only barely gave Mercosur the sense of permanence (or continuity) that it was lacking in the Asuncion Treaty. What most foreign observers seem to forget is that the Treaty of Asuncion is not, and never was, the “treaty of the Mercosur”. It was only a treaty to create a common market among four countries, conceived as an objective to be reached some time in the future. The only two mandatory rulings of the Asuncion Treaty were the self-enforcing trade liberalization scheme devised in its 1<sup>st</sup> Article (and its Annex) and the obligation in Article 18 to convene again before December 31<sup>st</sup>, 1994, to define and establish the permanent institutions of Mercosur. All other objectives, as set forth in the 1<sup>st</sup> Article (sectoral policies in agricultural or industrial domains, the harmonization of legislation, macroeconomic coordination, including the exchange regime), could be defined as a “gentlemen’s agreement”, without any sanction, self-enforcing procedure or mechanism in case of non-compliance.

It should come as no surprise that the two big countries of Mercosur (aside from all other consideration in terms of structural asymmetries), were engaged, at their own pace, in different types of macroeconomic stabilization programs, based on opposite exchange regimes with various consequences for their fiscal and tax policies and investment regimes. The free-trade zone (not achieved at all for automotive and electronic industries and capital goods) was postponed until the end of a “second” (not strictly formalized) period of transition, as was the completion and final application of the CET (nationally enforced).

This is all understandable: the customs union of Mercosur is merely flexing its muscles, dealing with many more pressing domestic tasks in the areas of fiscal adjustment, tax reform, institutional building, privatization programs and economic stabilization. Mercosur has performed so well that it achieved continuous growth in its external trade and exponential expansion in its internal trade between 1991 and 1998. Despite all of its institutional and structural shortcomings, Mercosur was a real success for its members. It also succeeded in attracting other countries to its liberalization schemes, such as Chile and Bolivia, which have

been associated partners since 1996, and the Andean countries, which are still in process of negotiation.

In 1999, following the debut of a financial crisis (controlled in a timely manner by an IMF-led rescue package), a moderate recession and a radical change in the Brazilian exchange regime, Mercosur's internal trade decreased for the first time in eight years. It has, however, renewed its previously increasing trend, albeit a slower one for the moment. Of course Brazil is the real engine of production growth and trade flows in the region, but it cannot be considered as a permanent trade-surplus generator for the other three countries. There is no reason that Brazil should become a deficit-prone country for the benefit of its Mercosur partners.

It is not necessary to elaborate on current challenges and the ongoing duties of the four member countries as these, in view of the well-known problems, must be overcome in the next few years to fully achieve the customs union promised for 1995 in the Asuncion Treaty of 1991. In all likelihood this will only be completed by 2006, placing Mercosur in the same time frame that the EC once was in 1968, albeit with an "integrated market" lacking the institutional features and the policy coordination mechanisms present at that time in the European common market.

Few realist observers should indulge in predictions, but it seems fairly safe to anticipate that Mercosur will experience only soft progression on its internal commitments, and a very informal widening to other partners in South America. Despite some dire predictions in the recent past, either in North America or Argentina, the Mercosur architecture does not face the risk of dilution in a mere free-trade zone. However, it is safe to prophesize a difficult consolidation for Mercosur in the foreseeable future (let us say, beyond 2010), and that political will at the highest level (a truly presidential endeavor) will be required to cement the consolidation of this process.

It would be premature to discuss the introduction of a common currency, although the idea is not to be disregarded. This could be achieved by means of a prior adoption of a system of parities correlating with the main currencies. This scenario could be linked to Argentina's abandonment of its fixed parity system and the acceptance of a shared mechanism for exchange management in Brazil. It remains, however, premature to speculate which paths might lead to a unified monetary standard in the future common market, the implementation of which could also entail the preservation of the national currencies. The internal debate on this matter has been undoubtedly stimulated by the adoption of the European single currency, euro, in 1999, which could lead to a partial abandonment of the dollar – currently the basic parameter – as an exclusive

reference in the foreign trade and international finance operations of member countries. Meanwhile, beyond some inevitable academic exercises and preliminary discussions, which are to some extent welcome, there is no hint of any schedule or commitments for this topic before the “third transition stage” after 2006. Until then, even with a minimalist Mercosur, it would be impossible to evade the problem of exchange rate coordination, as it is an essential condition for later progress in the other areas of common market building. Indeed, the member countries already established a special group for the coordination of macroeconomic policies in April of 2000. This group started by establishing the objective of harmonized statistics for the basic indicators and uniform methodological data collection that are necessary before any substantive decision can be made in this field.

In other words, whatever the eventual difficulties, Mercosur must advance in the economic-commercial area as a pre-requisite to preserving its political, regional and international identity in the face of the multilateral and hemispheric challenges of the early years of the twenty-first century. What are, in fact, the extreme alternatives that might be considered as a promise or a threat for the future of Mercosur? They seem to consist of two defined, although apparently impractical, views of political-institution development. On the one hand, the optimistic approach presents the complete realization of the original integration project: a common market characterized by the free circulation of goods, services and productive factors in line with the objectives of Article 1 of the Treaty of Asuncion, which, incidentally, have not yet have been achieved. On the other hand, the pessimistic perspective sees Mercosur subsumed in the future into a vast, hemispheric free trade area, such as the FTAA, which was established according to the program drawn up in Miami in December of 1994 and confirmed in Santiago in April of 1998.

#### **4. Divergence or convergence between Mercosur and FTAA: virtual parallel lives far into the future or how would FTAA fit into NAFTA and into Mercosur?**

In principle, a customs union (even an imperfect one like Mercosur) should not raise any kind of political or economical concern if it is incorporated into a larger ongoing free-trade zone (such as the one hypothesized for the Americas). It is useful to recall Benelux and the almost

perfect incorporation into the less than perfect European customs union of the 1970s, the lack of internal border controls and the common market-like characteristics that it possessed even in the absence of systematic macroeconomic policy coordination.

Mercosur is, of course, far from being a South American emulation of the original Benelux, but one should not consider its relationship with the FTAA project only in terms of divergence or convergence. As far as its own institutional dispositions, there does not seem to be any issue of compatibility between Mercosur and a future FTAA. It is also true, however, that in practical terms this question is of the utmost importance for the future of Mercosur, as I have already extensively discussed in my article published in *Integration & Trade*. In short, Mercosur must decisively strengthen all areas not yet adequately covered by its liberalization and coordination mechanisms: services, competition law, sectoral policies, exchange regime, etc.

If the hemispheric trade negotiations are successfully achieved (something which does not depend on the political will of the participating countries but fundamentally on the temperament of the American Congress) and if implementation becomes a tangible matter, sometime between 2006 and 2010 (possibly even farther into the future), it is likely that Mercosur and the currently hypothetical FTAA will lead virtually “parallel lives” for several years (perhaps, between 2012 and 2015). By that time, one should expect a real consolidation of the Mercosur process, and the question should be rephrased on how would (or should) FTAA fit into NAFTA and into Mercosur, as the latter two schemes would presumably keep some breathing space in the face of a less comprehensive FTAA.

Does Mercosur need an institutional revamp before entering into possible commitments like those with the FTAA? No, even if a strengthening of some of its internal mechanisms – in the dispute settlement area, for instance – would be welcome. Another lesson could thus be formulated at this stage: Mercosur can and must be handled as a real *work in*, if it is to survive into the free-trade fever of the second decade of the twenty-first century. Multilateral trade liberalization, not the more limited FTAA, is the real challenge for Mercosur, especially for a global trader like Brazil.

## **5. Consequences of EU-Mercosur trade liberalization for NAFTA and US: intermingling zones of asymmetrical liberalization and divergence of special and multilateral rules**

The liberalization process now beginning between Mercosur and the European Union will suffer from the same constraints as the FTAA negotiations: sectoral protectionist interests, real blockages in the agricultural sector, limited liberalization in services, many exceptions to the national treatment in the investment domain, etc. Both sides (starting with the usual bureaucrats and politicians) have not only second-thoughts regarding the real extent of liberalization, but also concerning some powerful watch-dogs such as northern farmers and southern industrialists, not to mention the habitually noisy groups of trade-unionists, environmentalists, social/human rights defenders and fundamentalists of many sorts. In reality, nothing will be new under the sun of the promised free-trade zone, based on what we already know from the experiences of other negotiations.

In fact, it would be no surprise if the EU merely sought a special relationship with Mercosur, not a real free-trade zone that would challenge the US in its own *domaine de chasse-gardée*. Mercosur obviously has to achieve a certain equilibrium in its external trade and political relationships, and the EU is already its first global partner in trade and investment flows. However, it is also Mercosur's "worst" market in terms of value-added and product dynamism, as a result of aforementioned "Common Agricultural Foolishness" and of many sectoral protectionist devices. In addition, the euro will not become a truly international currency in the near future, as its exchange and reserve functions for Latin American countries will likely remain limited for some years to come. Its financial attractiveness competes, but does not currently replace, the important role of the dollar, for example in the global bonds markets.

Realistically, one should not expect true trade liberalization, be it regionally limited or on a transcontinental basis, before the second decade of the 21<sup>st</sup> century. Some trade liberalization and a new set of rules for services and investments could be attained in a multilateral context before 2010 (the yet-to-be-launched Millenium Round). These could produce some overlapping of zones of asymmetrical liberalization and also a possible divergence of special and multilateral rules. In short, the near future of the multilateral trade system is already confused enough; it does not need the additional burden of different schedules of liberalization with special regimes in the framework of these "minilateralist" agreements which are yet to be

reached. An additional lesson could be extracted from this: Avoid diplomatic fatigue and do not engage in too many trade liberalization negotiations at the same time.

## **6. Limits of US influence on trade and economic integration in South America: the benign neglect into the XXI century, or a political agenda *déjà-vue* again?**

Since the first American International Conference, held in Washington in 1889-1890, with which the United States aimed to achieve a customs union (and even a common currency) with its less-developed Latin American partners, the progressive free-trade and multilateralist establishment in Washington has always wanted to perform this kind of natural economic integration for the hemisphere. New essays in this direction were launched, to no avail, at the beginning of WWII, as there was an equal (and understandable) natural restraint on the part of the attracted countries from engaging in reciprocal concessions with such a powerful neighbor.

At that time, Brazil had already decided to give preference to integration with its southern neighbors, even if the route would be somewhat erratic and prolonged. Priorities have not changed since then, and the Brazilian establishment continues to look suspiciously at any attempt at trade liberalization and economic integration in a situation of asymmetrical capabilities like that with the United States. The journey towards South American integration became much more credible and feasible during the 1950s, and the project has been carefully pursued (although, perhaps, not optimally implemented) since then.

As for the hypothesis that Mercosur's might be diluted by entry into the FTAA, this could only take place with the consent and desire of the member countries, excluding the possibility of a marked deterioration of Mercosur solidarity, during the latter years of the second transition stage. The possibility of Mercosur's dilution in the FTAA cannot be wholly discounted, judging by the persistent asymmetries and trade conflicts between the member countries. The formal, substantive premises of the FTAA are evidently less integrationist than those of Mercosur, even though the United States aspires to an economic agenda of hemispheric liberalization that goes beyond the basic components of a simple free trade zone. In fact, as defined in Miami in December of 1994 and successively developed in the ministerial meetings of Denver (June, 1995), Cartagena de Indias (March, 1996), Belo Horizonte (May, 1997) and San José (March,

1998), and later ratified in the second hemispheric summit (Santiago, April 1998), the FTAA program aspires to be something more than a mere exercise in tariff and reciprocal non-tariff concessions, extending its reach into areas such as services, investment, intellectual property, competition and public procurement.

One of Mercosur's first triumphs in the preparatory phase of the FTAA negotiations was to consecrate the principle of building blocks. The FTAA would not be constructed through the individual addition of each country to NAFTA, as the United States wanted, but through the convergence of the various sub-regional schemes of liberalization and integration. The other victory consisted of eliminating the specter of an "early harvest" -that is, the prospect of interim results by 2000. Coupled to this was acceptance of the principle of a single undertaking, according to which there would be a general understanding of all the benefits and advantages before any eventual sectorial agreement was completed.

In the final analysis, what is it that so frightens the Mercosur negotiators in the planned FTAA? Structural and conjunctural factors may explain Brazil's reticence toward the project. There are evident differences in competitiveness and productive base (economies of scale) between Brazil and the United States. US GDP stands at eight trillion dollars, currently concentrated in the most dynamic sectors of the new service economy, whereas the total GDP of Mercosur is little more than one trillion dollars, with a proportionally lower GDP per capita. Brazil – with a GDP less than one-tenth than that of the United States – hopes to consolidate its industrialization process amid the challenges arising from implementing the Uruguay Round agreements and the country's program of unilateral trade liberalization, not to mention the still unfinished stabilization program. In fact, the central debate on the FTAA does not, strictly speaking, refer to its commercial or even economic aspects. It unquestionably concerns a *power project*, and in this regard, Mercosur responds to the needs of its member countries.

Mercosur will not be, at least for Brazil, the sole framework for the development of international relations in South America. It already is, and will continue to be, the most important factor in the interaction and coordination of the political and economic spheres of foreign policy for the countries in the region. It is a kind of political insurance against a *déjà-vu* benign neglect. Voilà!



**Additional reading:**

Almeida, Paulo Roberto de. *Le Mercosud: un marché commun pour l'Amérique du Sud* (Paris: L'Harmattan, 2000)

----. "Brazil and the future of Mercosur: dilemmas and options", *Integration and Trade* (Buenos Aires: BID-INTAL, vol. 2, n° 6, Sept.-dec. 1998, pp. 59-74)

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### Regional Agreements and Integration Schemes

<i>Types Measures</i>	<b>Preferential Tariff Areas</b>	<b>Free-Trade Zone</b>	<b>Customs Union</b>	<b>Common Market</b>	<b>Economic and Monetary Union</b>
<b>Reduction an d/or elimination of tariff and non-tariff barriers</b>	ALALC/LAFTA ( <i>de facto</i> ); ALADI/LAIA; ASEAN; APEC; <i>Mercosur, transitional phase (1991-1994)</i> ;	ALALC (project); EFTA; CUSFTA; CER; Nafta; EEE (CE+EFTA); <i>ASEAN (2010-2020?)</i> ; <i>FTAA (2006-2015?)</i> ;	Zollverein (1844); <i>Benelux (first project: 1932)</i> ; Andean Pact (proj.); SADCC (project);	CECA (1951, part.); Treaty of Rome (1957); Treaty of Integration Brazil-Argentina (proj. 1988-1998);	Union Économique Belgo-Luxembourgeoise (1922);
<b>Common External Tariff and common trade policy</b>		Andean Community; <i>Mercosur, “second transition” (1995- 2001)</i> ;	Benelux (1948-1958); Czech-Slovak CUnion; <i>Mercosul, convergence (2001-2005)</i> ;	MCCA (project); Caricom (project);	German Empire (1871);
<b>Divisory line of social policies</b>					
<b>Free movement of factors of production</b>			European Common Market (1968); <i>Mercosur, service liberalization (2006?)</i> ;	European Single Act (1986-1993); <i>Mercosul, excepted for workers (2006-2010?)</i>	France-Monaco; Italy-San Marino and Vatican;
<b>Freedom of establishment</b>				European unified market (1993-1999); <i>Mercosur (2010?)</i>	Maastricht (1992-1999); <i>Mercosur (2015?)</i>
<b>Currency and/or common monetary policy</b>					EMU-11, “Euroland” (1999-2002); <i>Mercosur (2020?)</i>
<b>Common economic policies</b>					<i>United States of Europe?</i>

Source: Adapted from Paulo Roberto de Almeida, “A dimensão social dos processos de integração” in Yves Chaloult and Paulo R. de Almeida (orgs.), *Mercosul, Nafta, Alca: a dimensão social* (São Paulo: LTr, 1999).