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MERCOSUR TOWARDS THE FTAA

In face of Globalization and the Creation of Economics Blocks

By Hélio Ramiro Marques Neves
Minerva Program, Fall 1999

Advisor: Prof. Michael Moore

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I - Introduction

The process of globalization and integration in vogue currently, can be considered as irreversible, being the countries' duty to engage themselves, so as to improve the standard of well being of their populations. The proposal of establishment of the FTAA, and the issue of regional blocks like Mercosur, lead us to choose a process of hemispheric integration or development of regional blocks.

The creation of a free trade area for the Americas (FTAA) may remain as a central issue on the political foreign agenda of all countries in Latin America, North America and the Caribbean in the near future.

The future interest of the USA – main fosterer of the FTAA is positively related to the continuing growth of the imports of the countries in South America.

American interest in FTAA may decrease if the South American scenery is subject to strong unbalances on its external accounts and restrictions to external trade. On the other hand, the process of creation of the Common Market for the South (Mercosur) will depend, on a large scale, on the development of the external accounts of members of this subregional economic integration agreement.

In order to highlight the main aspects of this process, this text it will discuss the following topics:

II - Globalization

- Definitions

Globalization is not just word in fashion, but represents the synthesis of the radical transformations the world economy has faced since the beginning of the eighties.

This phenomenon limits indeed the of action of the national states, that is, imposing limits to their own power to enforce law and related policies, thus creating a growing interdependence between countries and markets.

In a very simplistic way, the term “globalization” has been used to summarize a series of transformations on the international economic relations, embracing corporate strategies and public policies.

In microeconomic terms, companies structure themselves to manage world scale competition strategies, specializing their direct investments for products and geographic areas, due to the comparative advantages and trade obstacles. These investments create a new corporation and industrial organization model, based on the diffusion of horizontal and vertical networks of coordination and integration of technological innovations and producing strategies.

On the side of governmental policies, the traditional paradigm of public intervention loses power and relevance face the “competition policies”, deemed to attract a high volume of innovation investments and qualified workmanship.

In this scenery, the international economic agenda goes through intense changes: the trade of products and tariffs gives place to a political treaty agenda, that no longer includes only the typical issues of trade policy.

Some issues that, until now, were considered as exclusively for domestic interest become a source of commercial tension, raising unilateral reactions of protectionist nature or, in a more optimistic hypothesis, a strong demand for convergence of national politics and regulations.

As a consequence, the eighties were characterized by a crisis of the multilateral trade organism and by the arisal of rival models of administration of interdependence: the unilateralism and the regionalization, together with the multilateralism in search of renovations, as occurred in the Uruguay Roun Agreement.

No definition for the term “globalization” is acceptable to everyone. It is definitely in vogue and refers to several things at the same time. It may refer to the fast interliason in national markets, the possibility of financial movement of billions of dollars through computers, the so-called “third technological revolution”

(processing, diffusion and transmission of information). The more enthusiasts believe that globalization can be defined as a new era of human history.

A more didactical definition may be the one expressed by Brazilian economist Eduardo Gianetti da Fonseca:

“ The phenomena of globalization results of the conjunction of three powerful forces:

1. the third technological revolution (technologies linked to search, processing, diffusion and transmission of information; artificial intelligence; genetic engineering);
2. The creation of free trade areas and economic integrated blocks;
3. the growing interliason and interdependency of the physical and financial markets, at a world scale.”

The French newspaper “Le Monde” disagrees in a recent dossier about ‘mondialization’, how the French call the globalization it reminds, first, that trade among nations is as old as the world itself, the intercontinental fast means of transport already exists for decades, multinational companies already have prospered for half a century, and capital moves are not an invention of the nineties, neither is television, nor satellites nor data processing systems.

What “Le Monde” calls “news” is the “vanishment of the only system that used to compete with the liberal capitalism in a global scale, namely the soviet communism”.

At this point the cycle is closed, because the end of the communism allows the capitalism to effectively globalize itself, with all corresponding implications: increase of the trade flood of information and expansion of the multinational companies to new markets.

“Mondialization”is much more than a supplementary phase of the internationalization process of the industrial capital in due curse for more than a century”.

- Tendencies

The three tendencies of globalization identified by analysts are as follows:

1. the “hiperglobalizers”, who think that globalization defines “a new age” in human history, on which the traditional “state nations are no longer, even in units of business that are impossible in a global economy.”
2. the “skepticals”, who understand that the floods of commerce, investment and manpower are not superior from past ones;
3. the “transformists”, who have an intermediary view. They admit that the contemporary process of globalization does not have any historical precedents, but think that a role remains for governments, as long as they adapt to a world where there is no clear distinction between domestic and international issues.

- Issues

- When did the world begin to get global?

Again, there is no simple answer. It has been said that it started in the beginning of the eighties, when information technology was associated to telecommunications. Others believe it started later, with the fall of commercial barriers.

- Is Globalization as phenomenon driven by the integration of the finance market?

There is no centralized command of the globalization. The financial market is a world mass in which bets are made in opposite tendencies. It presumes a model of enterprise, open trade and a global trademark. It can be said however, that none of this would exist without a dynamic financial market, that makes possible the closing of deals that was unimaginable 15 years ago.

- Does globalization diminish the power of the National States?

Most theorists seem to believe that it does. Part of them however, see the states as mere “victims”. By suppressing exchange control, the corresponding

government opens its frontiers to the entrance and exit of capitals. Some government may consider this to be something positive to their countries.

- Is the emergence of economic blocks a movement towards or against globalization?

To some, the regional blocks are the first step to a globalization model for the trade of services and goods. To others, they tend to create an internal logic of accommodation and protection to certain rules.

- Are multinational companies taking the place of governments and making decisions on their behalf?

There are some issues on which states seem to be sovereign. In Mercosur, Argentina may not be willing discuss with Brazil issues like its policy of health control or salaries of schoolteachers for example, the logic of commercial opening is to provide the expansion of business of multinational companies. It does not mean however, that they necessarily establish the rules of the game.

III - Economic Blocks.

Specialists in international trade and institutions that supervise this kind of trade are not sure whether blocks are just necessary and positive stages in the direction of a world without barriers or this kind of “minifortress” will become obstacles to the fall of the present borders.

This dilemma has a place of distinction in the Agenda of the WTO (World Trade Organization), an organization that plays the role of super sheriff of the international trade. One of the major challenges of WTO is to “assure that national obstacles to trade be not simply substituted by regional ones”. In other words, to prevent that countries such as Brazil, that used to be closed, breaks the barriers that existed in its internal rules in order to reraise them in the future in the regional market.

Regional blocks may, indeed, work as steps to a world without frontiers, as long as they practice what is called an “open regionalism”. In other words, as long as each block does not close itself and extend to other countries the facilities granted to members of the block.

If it is done the other way around, “we would get in no more than 20 to 25 years to a division of world trade in two or three preferential zones, each with its own rules and a free trade inside the zone. Obstacles would still exist outside the blocks”.

The most pragmatical definition of a trade block is presented by Jeffrey Lang, subchief of the USTR, the agency that deals with the american international trade: “every time a trade agreement is signed that reduces the barriers among the parties, and those parties do not include the USA, the american producers are damaged”.

By changing the country name, this way of thinking could be applied to any authority or nation excluded of regional agreements. When Brazil, due to Mercosur, reducer barriers to Argentine products, it is damaging the producers of all its other partiners.’

This is what is called in global trade “trade deviation”, meaning that by helping one side, for example the Argentine milk in Brazil, imports of Swiss milk are deviated. Or, in relation to exports, by having advantages to sell in Argentina, Brazilian producers may feel less pressured to modernize, in order to be able to sell also to Japan, for instance.

“Deregulating trade only to your neighbors, countries is by definition, discriminating against those that are not lucky enough to be part of the club”.

The point is to know whether these “clubs” are moving towards an integration with other clubs, in a way that, eventually, there is going to be one big block, the size of the planet, or they are going to close into three or four big conglomerates in a trade war against each others.

The big concern regards the foreseen union among regional truly giant initiatives, being this designation appropriate to three hypotheses of superblocks as follows:

1. the proposed agreement between the European Union and Mercosur, which anticipates the creation of a free trade area among the 19 countries from 2005 on.
2. the intention of 34 american countries, excluding only Cuba, to do the same in the same time. The FTAA (Free Trade Agreement of Americas)
3. the project of the APEC (Asian Pacific Economic Cooperation) of creating a free trade zone in two steps, being the first in 2010 and the second in 2020.

Any of the three projects that comes to reality will bring up the biggest free trade areas of the planet.

Nothing prevents, in thesis, that each of these area of commercial freedom leads to liberalization on a planet scale.

In the lack of a global project, each super block risks closing itself to others, which, besides the risk generating of a trade war, would segregate giant countries such as Russia and China, that do not so far belong to any of the existing schemes.

- **Types of Agreements**

- **Free Trade Area, Common Market and Economic Union**

The free trade is an agreement that allows the progressive adoption of common custom tariffs among member countries. With countries out side the block, each one would establish its own rules. If members decide to adopt an common policy to those that do not belong to the block, a custom union would have been formed. The common market goes beyond: it allows the transit of people, assets and capitals, not only goods. When economic policies of country members are standardized towards an common currency, the result is economic union.

- **Customs Union**

Agreement among two or more countries targeting the elimination of custom duties and other commercial restrictions between them. At the same time, they adopt a common tariff policy in relation to other countries.

- Areas of Tariff Preference

Regional Tariff Preference agreements as applied in the ALADI . In this system, member countries tax the totality or part of the reciprocal commerce with lower imports rates than those applied to the products of other countries.

- **The " Uruguay " Round Agreement**

The Uruguay Round Negotiations started in Montevideo in 1986, and took almost eight years to conclude. They ended with the largest package of reduction to barriers in international trade. Its most visible and better measurable impact was the reduction of imports custom fees.

The usual calculation of the effect of this liberation on world economy is a study of the General Agreement of Tariffs and Trade secretary, which was until then the organization in charge of commercial negotiations.

It says that "the agreements in commerce of the Uruguay Round will provide an estimate increase of US\$510 billions, by 2005 when its commitments will be fully applied". The Uruguay Round Agreement went beyond the downfall of barriers to exports goods. It introduced in the world agenda the so called new trade areas, specially the vaste universe of services. It is a rubric that covers from telecommunications to sea transport, goes through financial services and affects even governmental purchases, official label for auctions to buy from pencils to bridges.

The impact of the liberation on the services sector tends to largely overcome the downfall of barriers to trade of goods. It refers after all, to the most dynamic sector of the world economy and, overall, the only one that still creates jobs, in face the stagnation and decline of the industries and the mechanization of the agriculture. What the Uruguay Round did not change is the classical fact that, the agenda is related by developed countries.

It is symptomatic that, while agreements are settled over issues said as new (Telecommunications, Data Processing Systems, etc..), definitive negotiations for the year 2000 are still stuck. The reason is obvious: The USA, as well as the

European Union subsidize generously their agricultural producers and refuse to open their markets to competition with products of developing countries.

The support of developed countries positions is provided by a relatively small number of transnational companies that determine the agenda. It does not refer to a conspiracy theory but of facts and numbers.

The trade among subsidiaries and parent companies of multinational enterprises, represents approximately 1/3 of international trade and the exports of the multis to companies that are not affiliate represents another 1/3.

This concentration of economic power “may limit competition, reducing, therefore, gains to consumers and to national economies.”, says the report of the Consumers International, a global group in defense of consumers.

- Main Blocks of Integration:

- **ASSOCIATION OF CARIBBEAN STATES – ACS**

Creation: June, 24 1994 in Cartagena de Indias (Colombia)

Member States: Antigua, Barbuda, The Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, The Dominican Republic, El Salvador Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, St. Kits an Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname Trinidad and Tobago and Venezuela.

Associate Members:Aruba, France (in respect of French Guyana, Guadeloupe and Martinique), and Netherlands Antilles.

Headquarters: Port of Spain (Trinidad e Tobago)

Main Goals: economic integration with liberalization of trade, investment, transportation and other related areas;

formulation and implementation of policies and programs for co-operation in the fields of culture, economics, science and technology and social development;

preservation of the environment and conservation of natural resources

strengthening of friendly relationships among governments and peoples of the Caribbean.

- **ALADI - Latin-American Association of Integration**

Creation: In August 12,1980, in Montivideo (Uruguai) the Agreement of Montevideu.

Member States: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

Observers: China, Costa Rica, Cuba, El Salvador, Spain, Guatemala, Honduras, Italy, Nicaragua, Panama, Portugal, Dominican Republic, Romania and Russia.

Headquarters: Montevideo (Uruguay).

Main Goals: Create a Latin-American, long term common market and in a gradual way, with a regional tariff concession and by means of the signature of regional agreements of a partial reach.

- **CAN (AC) - ANDEAN COMMUNITY**

Creation: 26, May 1969 by the Cartagena Agreement. Later, in March, 1996 the name changed from Andean Pact to Andean Community (Trujillo Protocol).

Member States: Bolivia, Colombia, Ecuador, Peru and Venezuela.

Headquarters: Lima (Peru)

Main goals: promoting the harmonic development of the Member States in order to increase the economical trade and cultural exchange
Gradual creation of a common market.
Reducing the development differences and accelerate the growth of the Andean countries, in order to strengthen their position in the international trade context.

- **CARICOM - CARIBBEAN COMMUNITY**

Creation: Treaty of Chaguaramas (Trinidad and Tobago), in July 4, 1973.

Member States: Antigua and Barbuda The Bahamas, Barbados, Belize, Dominica, Granada, Guyana, Haiti, Jamaica, Montserrat, St. Lucia, St. Kits and Nevis, San Vincent and Grenadines, Suriname and Trinidad and Tobago.

Headquarters: Georgetown (Guyana).

Main Goals: to seek for economic integration toward the creation of a common market, to coordinate the macroeconomic policies.

- **CENTRAL AMERICA COMMON MARKET**

Mercado Comun Centro americano - Acronym MCCA in Spanish

Creation: Treaty of Managua, December 13 1960.

Member States: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

Headquarters: Guatemala City (Guatemala)

Main goal: Create a common market.

- **MERCOSUR - SOUTHERN COMMON MARKET**

acronym MERCOSUR in Spanish

Creation: March 26 1991, in Asuncion (Paraguay) was signed the Asuncion Treaty.

Member States: Argentina, Brazil, Paraguay and Uruguay.

Associated Members:

Chile and Bolivia (economic-cooperation agreement with MERCOSUR).

Main Goals: to create a common market with free circulation of goods, services and people, coordinate the macroeconomic policies and harmonize the national laws, in order to allow a broad integration.

Recent Events: June, 15,16 1999 – XVI of the Common Market Council to approve Decisions 6/99 and 7/99 in order to accelerate the process of coordination of the macroeconomic policies. A specific work group was created for this task.

June 28, 29 1999 – I Meeting of the Head of States to create a partnership between MERCOSUR, Caribbean States and the European Union seeking a future biregional trade agreement between those blocks.

Organization: MERCOSUR has a intergovernmental structure, not existing a supranational organization. The four countries take semestral shifts in the Pro Tempory Presidency of the negotiations.

- **NORTH AMERICAN FREE TRADE AREA - NAFTA**

Creation: December 17, 1992.

Member States: Canada, United States of America and Mexico.

Headquarters: There is no specific place, but a kind of representation in each Department of Commerce.

Main goals: Create a free trade area in the Americas seeking the elimination of trade barriers related to goods, services and capital until the year 2005.

- **EUROPEAN UNION – EU**

Creation: March 25, 1957 Germany, Holland, Belgium, France, Italy and Luxembourg signed the Treaty of Rome creating the European Economic Community. In 1986 Denmark, Ireland, United Kingdom, Greece, Spain and Portugal signed a Treaty to Create the European Common Market. In 1992 was signed the Treaty of Maastricht creating the European Union. In June 1997 Austria, Finland, and Sweden signed the Treaty of Amsterdam in order to create a more democratic Europe.

Member States: Germany, Austria, Belgium, Denmark, Spain, Finland, France, Greece, Holland, Ireland, Italy, Luxembourg, Portugal, United Kingdom and Sweden.

Main goals: Promotion of economical, social and cultural development between the European people through a common monetary union. (EURO, January 1st, 1999)

- **SADC - Southern African Development Community**

Creation: July 17, 1992 - was signed, the agreements of Windhoek (Namibia).

Members States: South Africa, Angola, Botswana, Lesotho, Malawi, Maurício, Mozambique, Namibia, Democratic Republic of Congo, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe.

Headquarters: Gaborone (Botswana), each State-member being responsible for a specify area, being headquartered, in South Africa, the Section of Finances and Investments.

Main Goals: Coordination, harmonization and rationalization of the politics and strategies of the States-members for the sustainable development in all areas of the human effort, aiming to reach the economic growth, the decrease of poverty and the improvement the pattern of quality of people life in Southern Africa through regional integration.

- **G3 - Group of the Three.**

Member States: Colombia, Mexico and Venezuela.

Creation: January 01, 1995.

Main Goals: Creation of a free trade area in 10 years (up to 2005).

- **ASEAN -. (Association of Southeast Asian Nations - ASEAN)**

Creation: In August 08, 1967, Bangkok (Thailand) - was signed by a Declaration of Bangkok.

Member States: Brunei Darussalam, Cambodia, Singapore, Philippines, Indonesia, Laos, Malaysia, Myanmar, Thailand and Vietnam.

Headquarters: Jakarta (Indonesia).

Main Goals: Acceleration of the economic growth, social progress and cultural development among the Country-members through cooperative programs, promotion of peace and regional stability, as well as an active collaboration and mutual attendance in economic, social, cultural, techniques, scientific and administrative subjects. It is current intention to accelerate negotiations so that a free trade area is reached by 2003.

- **APEC - (Asia-Pacific Economic Cooperation)**

Creation: APEC was informatily established in the Ministerial Encounter ocured in November 06 and 07,1989, in Camberra (Australia).

Member States: Australia, Brunei Darussalam, Canada, Chile, China, Singapore, South Korea, United States, Philippines, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, New Papua Guinea, Peru, Russia, Thailand, Taiwan and Vietnam.

Observers: Secretariat of the Association of the Nations of the Asian Southeast (ASEAN), Council of Economic Cooperation of Pacific (PECC) and Forum of Pacific South (SPF).

Headquarters: Singapore.

Main Goals: Liberalization of trade and investment, facilitation of business, technical and economic cooperation. In 1994, in meeting accomplished in Bogor (Indonesia), APEC established, as goal, the reach, by 2010, of freedom trade and investment between members and developed economies and, by 2020, between members with economies in development.

- **FTAA - FREE TRADE AREA OF THE AMERICAS**

Creation: Summit of the Americas, in December 1994 established the initial basis to create the FTAA.

Member States: Antigua and Barbuda, the Bahamas, Barbados, Belize, Bolivia, Canada, Chile, Colombia, Costa Rica, Dominica, El Salvador, Ecuador, The United States of America, Granada, Guatemala, Guyana Haiti, Dominican Republic, St. Lucia, St. Kits and Nevis, St. Vincent and Grenadines, Suriname, Trinidad e Tobago, Uruguay and Venezuela.

Headquarters: Miami – U.S.

Main Goal: to create a free trade area of the Americas by 2005.

Recent Events: April 18, 19 1998 – II Summit of the Americas, in Santiago (Chile) to reinforce the intention to create the FTAA BY 2005; June 19, 1998, in Buenos Aires the Program for each of the Work Groups was established; April 20-23, 1999 – Meeting of the work groups to discuss about investment, monetary policy and dispute resolution.

**MAIN STATISTICS
1997**

BLOCS	Number of Integral Countries	Population millions	GNP US\$ billions	Exports US\$ billions	Imports US\$ billions
ACS	25	210,7	685,5	203,0	211,7
ALADI	11	417,9	1.917,6	288,3	323,9
FTAA	34	771,4	11.074,2	1.545,0	1.729,9
CAN	5	103,0	274,9	48,3	53,7
CARICOM	15	14,0	29,1	19,1	19,5
MCCA	5	33,3	56,7	22,5	26,8
MERCOSUR	4	203,9	1.158,0	97,6	125,9
NAFTA	3	394,6	9.457,6	1.329,3	1.472,5
EUROPEAN UNION	15	373,3	8.141,6	2.556,2	2.357,8
APEC	21	2.388,4	16.646,5	2.799,1	2.862,1
ASEAN	10	421,5	810,3	388,0	397,9
SADC	14	191,4	161,0	50,0	51,7

IV - FTAA - The Hemisphere Integration

- Definition

The FTAA - Free Trade Area of the Americas, has as objectives to the elimination of existent commercial barriers among the countries of the area, creating a common market, by means of suspension of customs tariffs.

It is a megaproject that involves a population of almost 800 million people and a GDP estimated in US\$ 8,8 trillion. A market with potential to multiply business that represent about 50% of the world trade currents. Involved subjects are complex, including socially and economically differentiated countries, with different productive and commercial capacities.

The principles adopted by the authorities for the construction establishment of the FTAA include:

- the maximization of the opening the markets, based on already existent agreements in the hemisphere.
- the inclusion of all areas contemplated in the Plan of Action, which demonstrates the intention of including the areas already negotiated in the Uruguay Round Agreements.
- the full convergence with the provisions of WTO (World Trade Organization).

The FTAA follows the tendency of commercial liberalization all over the world, as the integration of countries is a survival condition. There are currently, 76 free trade areas, more than 50% of them starting from 1990, reinforcing the disposition to look for consumers besides national borders, because it is increasingly difficult to survive just with internal market. At the same time, the results reached in the existent sub-regional agreements reveal the potential of the process in the hemisphere integration.

The Plan of Action, it established that the Special Committee of Trade (CEC), of OAS (Organization of American States), would accomplish the systematization and the comparative analysis of all the effective agreements in the hemisphere. With it, the Interamerican Development Bank (IDB), an important organism in the formation of the FTAA, subsidize to the negotiations. The integration does not only look forward to the trade area, but also: investments, political dialogue and elimination of distrusts among the countries.

The range of necessary information to make possible the common area of trade is immense. It demands the standardization of subjects as diverse as, approaches common accountancy of companies, and bureaucratic procedures in the customs liberations. OAS and IDB created a database to join aspects of the customs legislation, norms and procedures, among other issues.

Nowdays, they prevail trade in transnational companies. The integration mechanism is, in fact, of great strategic interest to exporters, because the formation of free trade areas leads to the union of countries. The negotiations in

the FTAA are concentrated in subjects related with the creation of a common code of customs procedures and technical norms to facilitate business.

- Antecedents and Motivations

In the middle of last century, a commercial office for America, was inaugurated in United States which developed into the current Organization of the American States OAS. In spite of countless contributions, OAS did not become the main channel to process the hemisphere trade and to be the privileged forum of exhibition the differences in the continent.

The effective process of liberation of trade, as an antecedent of the FTAA, was called " Initiative to America ", thrown by president George Bush in June of 1990, whose main objective was the formation of a free trade area embracing North America and South America. Naturally, besides the objective of creating better access conditions to markets, the initiative had as a goal the constitution of a forum to negotiate the conflicts in trade areas of goods and services, investment and intellectual property between United States and other countries in the western hemisphere. Moreover, in June 1991 the countries of Mercosur signed a specific agreement with the USA (known as " Agreement 4 + 1 ") with the objective of facilitating the commercial negotiations. Besides, advisory councils were created on trade and investment. However, as several analysts had already foreseen, and for several reasons, both initiatives were did not prosper did not generate important commitments among involved countries.

In December 1994, the Clinton administration organized a meeting with all 34 countries in the Western Hemisphere, excluding Cuba, in spite of several manifestations in opposite on the part of Latin-American countries, including, the Group of Rio, composed by several South America countries. The proposal of the USA towards the creation of a free trade area was accepted by the other countries in the hemisphere. More than two years past, several work groups were constituted in order to negotiate the issues of a future agreement. The issues are, in fact, those introduced by the USA and other developed countries in Uruguay Round Agreement of GATT, with prominence to issue as, access to markets, customs

procedures, origin rules, technical norms, sanitary measures, subsidies, antidumping measures, compensatory rights, government purchases, rights on intellectual property, external investment, services and competition policies.

According to developing countries in the western hemisphere, the main motivation for the formation of the FTAA is the elimination of the North American commercial restrictions (mainly, the non-tariff barriers) and a preferential treatment of access to the enormous market of the USA, as well as increase of eventual flows of external investment of North American companies. The Clinton administration current motivations refer to the expansion of export opportunities and business, beyond, naturally, the consolidation of the influence of the USA in the continent. In fact, the western hemisphere absorbs about 40% of the North American exports and constitutes the main foreign market to the USA (USTR, 1996 Trade Policy Calendar and 1995 Annual Report of the President of the United States on the Trade Agreements Program).

Otherwise, the American government has been concerned with the extremely significant increase in the China's exports to Latin America, as well as with the recent agreement between the European Union and several Latin-American countries, including Mercosur. For the government of the USA the FTAA can also propitiate a mechanism adapted for resolution of commercial conflicts with the countries in the area. Finally, the extraordinary expansion of imports of the Latin-American countries in the last years has been, probably, the most important motivation for the formation of an preferential trade in the area. Those facts suggest, that it Latin America countries enter again in a trajectory of macroeconomic destabilization characterized by exchange crises or unsustainable commercial deficits, issue the FTAA is likely to have the same destiny of Bush's initiative, that is, instead of a candent issue finishes as a fading issue.

V - MERCOSUR

The agreements of economic complementation among Mercosur countries, on one side, and Chile and Bolivia, on the other, signed in June 1996, launched a new stage in the recent process of regional integration in Latin America's South Cone. The initial mark of that process was the Program for Economic Integration Argentina - Brazil (PICAB) in 1986, that was deepened and enlarged in a second phase with creation of Mercosur by the Agreement of Assunción on March 26, 1991 and started to have as signatories, besides Brazil and Argentina, Uruguay and Paraguay, and that foresaw the creation of a free trade area on January 1, 1995. However, the Ouro Preto meeting in December 1994 traced the new objectives of Mercosur.

- Current situation and New Objectives

The integration project in the Assunción Agreement of was considered very ambitious for many analysts, particularly in runs of timing and reach of the issues negotiated in a four year-old period. The central objective was the creation of a free trade area on January 1, 1995, that would eventually to lead a customs union as far as a convergence of the aliquots for a common external tariff (TEC) along the years could be obtained. The economic integration contemplated in 1991 would involve not only the commercial liberalization of goods and services, but also the free circulation of production factors, the harmonization of the juridical and institutional marks, and the coordination of macroeconomic and sectorial policies.

The mechanism of progressive and automatic unlevying of taces - that is, stages of growing margins of tariff preferences that would arrive at 100% on January 1, 1995 and, therefore, to the free trade area - meaning, in fact, a rigid schedule of commercial liberalization in Mercosur. Referring to the agenda it can be said that it was partially executed, regarding the delay of the schedule of null intraregional tariffs and the standardization of tariffs for countries out side Mercosur.

Ouro Preto meeting adaptation lists we defined so as to include products whose tariffs for the intraregional trade would be larger than zero. Moreover, exception lists were negotiated including products with different tariffs from those defined in TEC (Common External Tariff), as well as a specific regime for the automotive sector.

Concerning to the most complex issues for which working subgroups was constituted, although it has had important progress has been made in the exchange of information and in the discussions, there was not an agreement or significant commitment in several important issues for the integration process. No agreement was reached in such as coordination of macroeconomic and sectorial policies, agricultural area (subsidies), labor legislation, salary policy, non-tariff barriers, tributary policies, disloyal practices of trade and policy of defense of competition, as well as standardization of juridical and institutional marks, which remained pending.

In fact, the redefinition of Mercosur objectives, in the terms of the Program of Mercosur Action to the Year 2000, as defined in the meeting of the Council of the Common Market in Punta del Este December 1995, meant, in practical terms, the abandonment of complex issues like coordination of political macroeconomic, structures institutional supranational and standardization of sectorial politics.

As soon as the deepening of the integration process became increasingly difficult, the governments opted for an alternate trajectory marked by pragmatism. In that sense, the central objective of Mercosur, as defined in the Ouro Preto Protocol, is that of the consolidation of the customs union in a period of 10 years (1995-2005). The same time, the countries signatories made the option for the process of Mercosur amplification through agreements either on economic complementation or of tariff preferences based on the mechanism of progressive tariff unlevying.

In June 1996, agreements of economic complementation were signed with Chile and Bolivia foreseeing the creation of a free trade area in 2004 and 2006, respectively. It should be noticed, still, that pragmatism also guided the signature of

those agreements, which also include important exceptions, in the agricultural sector, that should last up to 18 years in some important cases.

Therefore, it can be argued that the integration project through Mercosur suffered a positive "flexibilization" as it incorporated a significant dose of pragmatism. Such larger flexibilization of the process has been taking place with tariffs elevation, mobile lists of exception, amplification the exception lists, and acceptance of non-tariff barriers (e.g., quotas for vehicles). Special regimes for certain sectors, as, for example, automobiles, textile and toys, it is the result of that new reorientation of the integration process.

The flexibilization of Mercosur and the redefinition of its objectives were an answer to a certain regional reality, namely, for the macroeconomic instability of signatories countries and the dynamics of the production restructuring, characteristic of the integration process. In that sense, the eruption of the Mexico crisis in December 1994, a week after signature of the Ouro Preto Protocol, whose implications, along the first semester of 1995, were decisive to flexibilization of Mercosur as there was a significant deterioration of external accounts of Mercosur countries.

- Evolution of the Economic Relationships in Mercosur

The constitution of Mercosur implied a significant expansion of regional commercial flows and an important process of productive restructuring at the regional level. Concerning trade flows, Mercosur represents nowadays about 15% of Brazilian exports and imports. In 1995, trade of Brazil (exports and imports) with Argentina, Paraguay and Uruguay come to US\$ 15.5 billion, as related to a current total of trade of the Brazil of US\$ 101 billion (Tables 1 and 2). In fact, after the European Union and of the USA, Mercosur is the main origin of the Brazilian imports, overcoming, besides, Asia.

In the last years, there was a significant increase in the importance of the intraregional trade involving Mercosur countries as result, evidently, of the integration process. In the case of Brazil, for example, the commercial exchange with the countries of Mercosur increased from around 5% of the total trade external

of the country in the eighties, to more than 10% of Brazilian's exports (starting from 1992) and of the imports (starting from 1989). In fact, between 1990 and 1996 the trade flow between Brazil, on one side, and Argentina, Paraguay and Uruguay, for other, quadrupled, from US\$ 3.3 billion to US\$ 15.5 billion.

In the case of Brazil, it can hardly be argued that a significant impact has occurred, in aggregate terms, of deviation effects and trade creation derived of Mercosur. The increment of 10 percentual points of the specific weight of Mercosur represents about 1% of Brazilian GDP. However, it should be stressed, once again, the impact of Mercosur is, fundamentally, specific to products and areas.

Moreover, Mercosur has played the part of an auxiliary mechanism of the process of productive restructuring in several segments, mainly, those where transnational companies act, which have subsidiaries in the countries of the area and benefit of scale economies.

The commercial exchange between Brazil and Argentina expanded significantly in last years. Argentina is, after the USA, the most important commercial partner from Brazil, both in exports and imports. The recent changes and the current situation Mercosur reflect national, regional and international reality, fundamentally, of economic order, that have been determinant of the trajectory of the integration process in the South Cone - Latin America. In that sense, as opposed, Mercosur does not have a political and ideological imperative that it impels process, contrarily, for example, to the Europe Union or the North America free trade area. Consequently, the evolution of Mercosur, after the phase of ambitious objectives (1991-94), became determined by the pragmatism and for the flexibility of the process.

In fact, there is no other alternative for Mercosur, in view of the enormous difficulty of arriving of a common denominator in regional level, involving countries with enormous heterogeneity, economic and social unbalances, and vulnerability. Independently of the macroeconomic instability (inflation and external disequilibrium), that continues as a permanent, explicit or implicit menace in the area there is no doubt that a series of another important factors determine the

perspectives of Mercosur and force the governments to maintain it a less ambitious, even so more feasible trajectory for the process of regional integration.

Among those factors to be stresses, one is the absence of a project of common development and a common vision of international insert that, among other aspects, is an important condition for a regional presence in the international arena. The harmonization of norms, rules, practices, procedures and politics, although a long run process constitutes an extraordinary obstacle in Mercosur given the absence of institucionality in the countries of the area

Table 1 - Structures of the exports in selected regions - 1997

Origin/Destiny	North America	Latin America	East Europe European Union	Other	World
North America	36,23	15,28	16,85	18,56	100
Latin America	52,13	20,52	14,04	14,97	100
East Europe					
European Union	8,17	2,54	60,78	67,04	100
Total	8,31	2,48	60,85	66,95	100

Source: OMC

Table 2 – Structure of Mercosur exports

	Exports %		
	1991	1994	1997
ALCA	39,9	49,4	51,3
ALADI	20,2	29,3	34,5
Mercosur	11	19,4	24,6
Other	9,2	9,9	9,9
North America	17,9	18,2	14,9
Rest of ALCA	1,8	1,9	1,8
European Union	32,3	27	23,2
Rest of the world	27,8	23,6	25,4
Global Total	100	100	100

Source: ALADI

- Recent Events

In the first semester of 1999, Mercosur event under its hardest test in the way to consolidation. The financial crisis forces Brazilian economic authorities to adoption of a radical change in the exchange regime of the country, allowing the float of Real relation to the American dollar.

As a reflex of the Brazilian crisis – and the to strong devaluation of Real - the partners of Mercosur immediately suffered the impacts in their economies. Even in a context of crisis and uncertainties, some analysts affirm that the fast growth of trade and investment during the last years confirms that the integration process is going well, with the private sector.

Besides, the relatively low economic interdependence and the atmosphere of macroeconomic uncertainty affecting members countries, stand as important reasons to preserve the pragmatic character of the block and the flexibility that its institutional system assures.

Other analysts affirm that the current situation will not be modified without the deepening of the integration process.

Mercosur governments have responded concretely to these challenges. It is instituted, a Group of Work of high level was instituted, in the ambit of the Meetings of Ministers of Economy and of Presidents of Central Banks, in order to present effective alternatives and practices of coordination of macroeconomic policies.

VI - Mercosur and FTAA

- Agreements

Commercial preference agreements device fundamentally from political decisions. In the case of Mercosur, there are two different groups of agreements.

The first one includes the derived negotiations of the tariff preferences in the ambit of ALADI (Association Latin-America of Integration) granted along the years by members of Mercosur. The constitution of the union – Mercosur, with the adoption of a common external tariff for all members in that union, imposes a framework of common preferences. In that context, the renegotiations have been

directed, when ever possible, to the accomplishment of free trade agreements between Mercosur and partners of ALADI, as already happened with Bolivia and Chile.

A second group of agreements includes negotiations seeking to the formation of free trade areas with developed countries - the proposal of the FTAA and the Agreement with the European Union. There are significant differences among those two groups.

The agreements in the ambit of ALADI result from the need of renegotiating the historical patrimony (the tariff preferences of ALADI) and, at the same time, are initiatives that consolidate the strategy of invigoration of the South American area, led by Mercosur. The proposals towards the FTAA and the European Union are initiatives motivated mainly by actions and interests of the United States and European countries, and do not consistin a priority agenda of Mercosur.

While the agreements in the ambit of ALADI causes local debates on the effects of the commercial liberation, the proposal towards the FTAA or the European Union are understood as changes of directions in the Brazilian commercial policy. An unrestricted commercial opening to big economies would mean, partly, the option for aresignment to the use of a commercial policy as an instrument of sectorial incentive. In that context, a unilateral liberation is preferable than multilateral. The structure of trade in Mercosur does not aim at an obvious preferential area for an definite option, be this with the FTAA or with the European Union.

- Search for Equilibrium

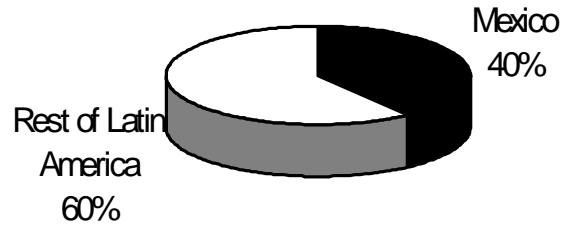
Considering of exports of Latin America, European Union and North America (Canada and United States) as a while, North America represents 52% of the destiny of Latin-American exports and the European Union only 14%, while, Latin American represents, just 15% and 2,5% of the destiny of the North American and European exports respectively. At first, the Latin American commercial

interests would be concentrated in the North American market. However, a closer look at this being observed list shows, Mexican exports explaining 40% of the total exported by the Latin-American countries and 66% of the total that is exported to United States.

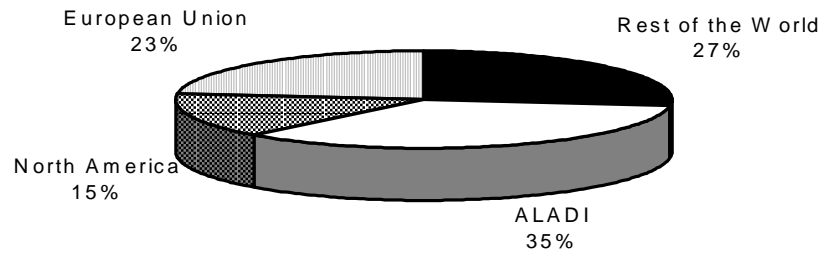
If Mercosur is considered, the European Union, in 1997, represented 23% of the total of the exports of that South American block and North America, just 15%, while ALADI was the main destiny of the external sales, with 34,5%. Under that prism, the commercial interests of Mercosur involving agreement with developed areas would focus the European Union, although the participation of Mercosur in the exports of the Union is only of 1,08%.

To the countries of Mercosur, a commercial liberalization necessarily includes the agricultural issues. Especially in the European market, it is also important issue in the FTAA, but trade with the European Union is more concentrated in agricultural products than in the case of United States. The European Union represents just 22% of the total of the Argentine agricultural exports and United States 4,4%, according to data of 1997 of Cepal (Latin-American Commission of Integration). To Brazil, those values are, respectively, of 13,1% (United States) and 59,6% (European union). Given the importance of the common agricultural policy in the European Union, some doubts exist arise concerning the possibility of a beneficial agreement to the countries of Mercosur in that area.

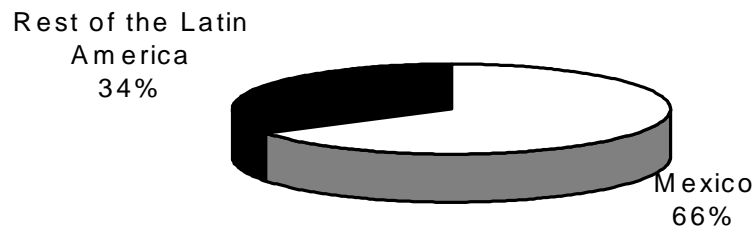
Participation of Mexico in the Total Exports from Latin America - 1997



Mercosur Exports - 1997



Participation of Mexico in the Exports from Latin America to the North America



- FTAA and International Trade

In the last years, in South America, international trade has been an important strategic variable for the economic growth.

Currently, the positive context of political stability (consolidation of the democracy) and economic stabilization (reduction of inflation, reduction of public deficit), prevalent in almost all the countries in the area, is not enough to assure a stable and sustained growth in the next years.

The perspectives of an even faster expansion depend on countless factors, especially the capacity to increase the exports and to diversify and sophisticates them.

What is observed today in that section, in South America is the loss of dynamism of exports in 1995, with the exception Mexico, the medium rate of growth of the exports in the area was of 3,6%, below the world expansion; two thirds of the exports concentrated on few primary products (agricultural, minerals and semimanufactured); absence of products of high aggregate value in the export list, and stagnation or reduction of the exchange with the industrialized countries. On the other hand, the intra-regional trade continues to grow significantly (about 25%) in the last years (Aladi).

Considering these aspects, it is worth examining the impact of the next negotiations in the FTAA, one of the most important of the diplomatic and commercial history, on the strategy and the policy of external trade of Latin America's countries.

- Different Sights

There are different visions concerning the creation of the FTAA and the progress of Mercosur (consolidation, deepening and enhancement). Risking an exaggerated simplification, it is not uncommon to find government authorities of a country expressing visions that do not seem identical. It is worth to classify those

positions in six groups, namely: "Free Exchangers", Pan-americanists, Minilateralists, Occasionalists, Geopoliticians, Globalists and Bilateralists.

The "Free Exchangers" welcome the FTAA and believe its acceleration to serve the purpose of a larger opening of internal economies as well as wider opportunities in the international market. In that sense, any agreement of regional economic integration, like Mercosur, is seen as an intermediary step for free trade in a multilateral scale.

Pan-americanists, naturally, favor the progress of Mercosur. As far as FTAA is concerned, they argue that, independently of the benefits of associated welfare, there is no other alternative than the automatic qualified alignment or to the policies and strategies of Washington. Therefore, even after the end of the Cold War, the formation of regional blocks in a multipolar world would not leave any Latin-American country other choice than a growing integration between South and North America, under the USA hegemony. That group can be included also those that believe that an agreement such as the FTAA would give a larger bargain power to the Latin-American countries, as a common unit when facing the interests of Washington.

Minilateralists have a qualified vision regarding the FTAA, presenting a "Latin" inclination, clearly favorable to the invigoration of Mercosur. They argue that the major interest is the promotion of subregionals or bilateral acceleration in Latin America. In that sense, an agreement with the USA could have negative effects on production, employment, balance of payments, and degree of freedom in economic politics. When referring to Latin America, argues, for example, that the agreements current subregions, allowing a gradual and significant progress of the commercial liberalization, without larger risks than those associated with integration in continental scale involving an economic power as the USA. Moreover, the consolidation of regional and subregional agreements like Mercosur. Would incentive a position of larger competitiveness and power of bargain facing the USA in the future, when the process of formation of a free trade area in America is launched.

Occasionalists express a certain skepticism about the FTAA based in the argument that, in the moment, the net effects of an agreement would be negative. They are neither against the opening nor the regional integration and consider that the current moment the internal conditions would be inopportune. The unfavorable circumstances would be, thus, determinant of an attitude contrary not to the FTAA, but to the timing of creation of a free trade area.

Among those circumstances it would be worth stressing the fragility of sectors already exposed to international competition as a result of the recent unilateral liberalization, and the absence of human and financial resources necessary for a new "front" of negotiations, combined with the uncertainties regarding the impact on the balance of payments of an additional step in the process of commercial liberalization. As it, Mercosur is seen in a favorable way, as an auxiliary instrument of invigoration of South Cone economies.

Geopoliticians argue that a wider vision should be held concerning international relationships surpassing the limited scope of the commercial flows or even of the international investment. Geopoliticians believe that, in the view of the United States, the FTAA will be an additional instrument of consolidation of USA influence in the American continent. In the case of Brazil, Geopoliticians do not favor the FTAA based in the central idea that the country would have an important role to play in the international scenery and, therefore, the participation in a multilateral agreement with evident hegemony of United States would mean a loss of international projection and an increase of the already high external vulnerability of Brazil. That vulnerability would be evident in commercial, productive, financial, technological plans and, consequently, geopolitics spheres.

The concern with issues like the national sovereignty is evident corollary of the geopolitic perception regarding the FTAA. In that sense, Geopoliticians do not either favor Mercosur because they see Argentina as a competitor in the international plan, besides the historical for dispute hegemony in South America. Besides, that, the participation in a scheme of regional integration with Argentina would reduce even more the degree of freedom of the national politics, in view of

the fragilities of the Argentina economy and its current political leadership as well as the strategy of passive international insertion of that country.

Globalists are contrary to the creation of the FTAA and to the progress of Mercosur, under the argument that a country as Brazil, that is " global trade ", should not give preferential treatment to United States in detriment, for example, of Europe. Others argue that the integration should focus the Asian market, perceived as in the recent past. According to that vision, the gains of trade of an agreement like the FTAA would be inferior to the derived costs of trade deviation, with the substitution of imports of cheaper products of Europe or Asia for more expensive ones of North America.

Finally, there is another vision concerning the FTAA, denominated Bilateralists, who are unfavorable both to the FTAA and to Mercosur. The central idea is that the orientation of foreign policy of a country as Brazil does not need to be centered in the participation in continental, regional or subregional schemes, with preferential treatment for the country members. The participation in subregional schemes, where the country has some hegemony, ends up reducing the degree of its freedom while the regional or multilateral agreements finish as foreign policy instruments of the countries hegemonycs, contrarily to Brazilian interests. That is the case of the World Trade Organization (WTO) and, probably the FTAA.

The "Free Exchangers" and Pan-americanists favor to formation of the FTAA, whilw Minilateralists and Occasionalists are ambivalent in their positions, and Globalists, Geopoliticians and Bilateralists are contrary. As far as Mercosur is concerned, the "Free Exchangers", Pan-americanists, Minilateralists and Occasionalists favor the continuity of the process (consolidation, enhance and deepen), while Globalists, Geopoliticians and Bilateralists are contrary. Besides, the visions above are not totally exclusive. For example, some Minilateralists may be considered as "Free Exchangers", while some Globalists may also resemble Geopoliticians. Occasionalists may argue that their position refers to the short or medium term and that, therefore, in the medium term they can be regarded as Minilateralists and in the long term as "Free Exchangers". Besides, those visions

regarding the FTAA are hardly showing their “pure” form. In a general way, the visions above are presented with several qualifications and seasoned by specific interests.

VII - Conclusion

In this present phase of the world history of globalization and economical and political integration among the nations, especially “blocks”, seems very clear: the integration of America is a process that follows the same patterns and world tendencies.

It seems correct to maintain the target of 2005, instead of anticipating it to 2003, as the USA wishes to 2003, because Mercosur countries wish to gain time wishes involve businessman, workers and consumers, in way to legitimate the process.

Although we have to have a clear vision about what is happening in regional and sub-regional terms and what should be made to preserve the national interests of the private section (agricultural and industrial).

An area of trade without proper adjustments and certain time, among countries so unequal, would be impractical. We have, still, a continental with a variety of economies, habits, societies, cultures, traditions and social distortions. Questions, where the market economy was not entirely responsible, but the right or the left populism can make worse if they aim at the immediate interest of a small part of the population that has always taken profit of the state, following the tradition of the European counterreformed metropolises. Impractical would also not break definitively protectionism in these countries.

There are two kinds of questions: the punctual questions, concerning tariffs, restrictions, etc., to be settled by private enterprises with the aid of their respective governments, and the structural questions, which are quite complex for they involve historical, political and economical contents, as well as traditional ideologies. These questions will present more impasses as the Americas are not only one, they do not have the same unity as the countries of Eastern Europe, which make attempts for the most developed form of market integration: free

circulation of goods, capitals, services and people and still unpredictable the monetary unification.

Mercosur, acting as a unit, will certainly seek to discuss the questions that involve tariff and non-tariff barriers within the American.

If we compare the evolution of the bilateral trade balance between the USA and Brazil since 1994, that showed a US\$ 2,1 billion surplus in favor of Brazil which has moved to a deficit of US\$ 1,8 billion in 1995 and US\$ 2,1 in 1996, we perceive new trade policy by Brazilian government proposed.

These frames would certainly be different should the overtaxes, the high tariffs, the systems of quotas and the sanitary barriers, imposed by the USA government to brazilian producer, be reduced. Brazil and Argentine have both, in fact, been victims of United States antidumping and countervailing duty actions brought, more often than not, as a result of protectionist pressure from fearful United States producers.

Argentina, after all, is one of the world's largest producers of agricultural products that often compete directly with American-produced goods in the international market. Brazil, as the tenth-largest economy in the world, has highly efficient industrial sectors whose output enjoy substantial competitive price differential over similarly goods produced in the United States.

These fear are not only from agricultural producers, but from a variety of Americans, particularly working class Americans, that are opposed to the United States enters into a free trade agreements with Latin American countries, they think that's can be direct threat to their jobs. Accordingly, any attempt to incorporate Mercosur's major partners into FTAA will arouse even greater resistance than Mexico's inclusion in the NAFTA did.

Mercosur, in the context of its consolidation, in spite of all its success in the commercial area, and perhaps because of it, goes through a period of growing complexity in the negotiation and definitions of its real priorities.

This complexity devices from the political decision of accelerating the internal negotiations in Mercosur. It is also a consequence of the tensions arisen evolution by the creation the FTAA.

The priorities will have to take into consideration overlapping agenda of FTAA and the necessity of progress of most important issues reflects a balance of interests among the four members countries.

The relationship between Mercosur and the FTAA, not only during the negotiation, but above all starting from 2005, will be perhaps the major challenge for the identity of the customs union.

The economic development depends on adequate policies, of a "sustainable development", a growing flow of productive investments, dynamic sectors, trade without subsidies, and prevention of disloyal practices.

Trade and economic integration are undoubtedly essential factors to increase development patterns and work conditions, in as much as they assume a transparent and democratic attitude, directing progress results to all the society segments.

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• **Statistical data - Observations**

I - Everybody the referring data to the " Population " are of the year 1997, with approach in the first house decimal of the million;

II - with relationship to the numbers of " GDP ", Export " and " Import ", the great majority of the available data in International Financial Statistics - Yearbook 1998 (Vol. LI) and in its edition of June 1999 (Vol. LII, # 6), both of the IMF, refer to the year 1997. However, for some countries, or it is had data of 1998 (lista1), or just of previous years (it lists 2), what allows to explain the small differences in case the data of this Bulletin are compared (# 24) with those of the previous number (# 23), that also presented data of 1997. The referring data to countries not mentioned in none of the lists they are relative to the year 1997. The approach gave him in the first house decimal of the billion;

III - Para each economic block, the presented data don't include the countries listed as " Associated ", Observers " or " Candidates ";

IV - Some countries had not statistical data (lists 3).

IST 1		LIST 2	
South Africa	1998	Papua Guiné	1993
Australia	1998	Suriname	1993
Áustria	1998	Bahamas	1995
Bolivia	1998	Mozambique	1995
Botsuwana	1998	Rep. Dem. Congo	1995
Canada	1998	Colombia	1996
El Salvador	1998	Jamaica	1996
Spain	1998	Luxemburg	1996
EUA	1998	Namibia	1996
Philippines	1998	Saint Lucia	1996
Greece	1998	S.Cristóvan Nevis	1996
Guatemala	1998	S.Vic.e Grenadine	1996
Honduras	1998	Zimbabwe	1996
Hong Kong	1998	LIST 3	
Malavi	1998	Angola	Population (only)
Mauricio	1998	Angüila	No data
Mianmar	1998	Brunei Darussalam	No data
Dominican Repub	1998	Camboja	No data
Russia	1998	Cuba	No data
Swedem	1998	Montserrat	No data
Uruguai	1998	Taiwan	No data
Venezuela	1998	Vietnam	No data