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The Southern Common Market - MERCOSUR

Recent Developments in the Process of Latin American Integration

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Introduction

The Southern Common Market - MERCOSUR (in Spanish) or MERCOSUL (in Portuguese) is an economic area formed by Argentina, Brazil, Paraguay and Uruguay and has been, so far, the most successful experience in integration in Latin America. The economic importance of this group can be measured by a total GDP of almost US\$ 800 billion and a total annual trade flow that amounts to more than US\$ 100 billion.

Together with a total population over 200 million people, the above figures show MERCOSUR as one of the five largest economies in the world.

The present paper describes what has been done so far in building MERCOSUR and its institutional structure. Along with the discussion of general topics such as the common external tariff and the harmonization of macroeconomic policies, it also presents specific issues, like consumer rights, competition protection and industrial policy.

Most of the work was based on the author's experience in assisting the Brazilian section of the MERCOSUR Joint Parliamentary Committee as well as members of the Brazilian Federal Senate in issues related to MERCOSUR.

Historical Background

The question of integration in Latin America is as old as Simon Bolivar's dream of freedom for the continent. It preceded the idea of an integrated Europe and has been an item in Latin America political agenda since the early 19th century.

The first concrete initiative occurred in 1941, when a free trade agreement between Brazil and Argentina was signed. This agreement, which was intended in creating a customs union between the two countries, failed after the United States entered World War II, due to the different political positions Brazil and Argentina took at the time.

By the late 1940s and early 1950s, the United Nations Economic Commission in Latin America and the Caribbean - CEPAL, did important studies in the economics of development in the continent. From these studies, initially conducted by Raul Prebisch, new strategies aimed at the development and industrialization of Latin America were created. CEPAL advocated regional integration through acceleration of industrialization based in the import substitution model and not in the idea of open market economies.

In 1960, as a result of the first Montevideo Treaty, the Latin American Free Trade Association - ALALC was established to create a free trade area in the continent. As the economic trend at the moment was toward import substitution and its consequent protectionism, ALALC failed and was succeeded, in 1980, by the Latin American Integration Association - ALADI, with a mandate from the second Montevideo Treaty to enhance integration in Latin America and not only established a free trade area.

In 1985, after military rule was over both in Brazil and in Argentina, the presidents of both countries decided to initiate a process of bilateral integration. By the following year, the two countries signed the Integration and Economic Cooperation Program - PICE, with the objective of creating a

common economic area, where markets would be selectively open in order to stimulate complementary industries in both countries, based in the principles of gradualism, flexibility and equilibrium, so that the economic sectors of both countries could get adapted to the new conditions of competitiveness. This was the official justification at the time. Integration was thought in a much more gradual pace before MERCOSUR, the initial idea was to allow the several economic sectors adjust to the new reality.

In 1988, Brazil and Argentina signed the Integration, Cooperation and Development Treaty, aimed at establishing a common economic area by 1998 through the exclusion of all tariff and non-tariff trade barriers to goods and services between the two countries, along with the harmonization of macroeconomic policies. Under this treaty, 24 protocols of sectoral integration, in such areas as wheat, auto industry and industrialized food, were completed. Even in the field of nuclear research a sectoral protocol was signed.

In July 1990, the two countries agreed in the date of December 31st, 1994 to establish a common market between Brazil and Argentina, which was open to other Latin American countries. It was a rather fast development from the gradual integration strategy thought at first.

Uruguay and Paraguay join the negotiations and a new agreement, the Asuncion Treaty, was signed in March 26th, 1991 to constitute a common market among the four nations, which was called The Southern Common Market - MERCOSUR. The date of December 31st, 1994 was maintained as the initial term. In fact, since September 1990, both Uruguay and Paraguay were interested in the negotiations. The president of Uruguay took part in the previous meetings as an observer, showing his interest in participating in this new integration process. Paraguay was still under a non-democratic government and this made its participation more difficult. Only after the authoritarian government was removed, Paraguay fully participate in MERCOSUR negotiations.

The Asuncion Treaty started the period known as transition period, which was the stage where the instruments for conforming the new economic area were established. These instruments were: trade liberalization and harmonization of macroeconomic and sectoral policies.

Trade liberalization meant the gradual reduction, until zero, of all tariffs and elimination of all non-tariff barriers by December 31st, 1994. There was an exception list for the so-called sensible products, which tariffs would be reduced in 20% until the above date. The products in the exception list are not submitted to a free trade regime, what created pressure from certain industries to include their products and keep a protection margin. This was the reason why other free trade experiences in Latin America failed.

The objective of harmonizing macroeconomic and sectoral policies led to the creation of several work groups to discuss ways of adjusting the different policies. The role of these work groups will be discussed in other parts of this paper.

After December 31st 1994, MERCOSUR entered its second stage, the consolidation period, where the countries participating in the agreement evolved from a free trade area to a customs union. The most important aspect of this stage is the adoption of a common external tariff toward all countries outside MERCOSUR.

In a free trade area, products and services move among the member-countries without paying tariffs (there are exceptions, as we mentioned before), but each country keeps its own trade policy and its own tariffs toward other countries. There are also origin regulations establishing the minimum amount of national added value to specific goods, to avoid maquiladora industries. In a customs union, however, the member countries adopt a common trade policy, which reflects a common external tariff. It is a more complete form of economic integration.

MERCOSUR is still an imperfect form of customs union, as far as the exception list still holds and many product are excluded, at least temporarily, from free trade.

A benchmark for this second period was the Ouro Preto Protocol, approved in December 17th 1994. It not only started the consolidation period, but also set forth MERCOSUR's institutional structure, something that, although of capital important for the integration process, was missing in the original agreement.

The Asuncion Treaty created two bodies: the Common Market Council, in charge of the political conduction of MERCOSUR, and the Common Market Group, the executive body, divided into 11 work groups, where sectoral policies are negotiated. It also established an Administrative Secretariat, based in Montevideo, to give support to the work groups.

The Ouro Preto Protocol made some innovations in the institutional field. MERCOSUR was given a judicial status in international law and along with the Common Market Council and the Common Market Group, two new bodies were created: the Trade Commission and the Social and Economic Advisory Forum. The Trade Commission is in charge of supporting the Common Market Group in the issues of trade and customs policies agreed by the member-countries and aimed at the good functioning of the customs union. The Social and Economic Consulting Forum is formed by representatives from civil organizations from the four countries.

The role of the Joint Parliamentary Commission was also defined. This Commission, formed by members of the Legislative bodies of member-countries, was created by section 24 of the Asuncion Treaty with a vague mandate. After the Ouro Preto Protocol, it gained an important role in proposing to each country's parliaments legislation aimed at harmonizing policies and to speed the legislative approval of the agreements.

The Common External Tariff and the Customs Code

One little known aspect of MERCOSUR is that it is a partial agreement under the ALADI framework, the so-called Economic Complementation Agreement no. 18 (ACE no. 18), signed in November 1991.

ALADI, as already said, succeeded ALALC in 1980 and have the long term goal of establishing, in a gradual and progressive way, a Latin American common market. To achieve this goal, it was accorded that the 11 member-countries could make partial, bilateral or multilateral, trade agreements within the preferential area, so that economic integration could advance according to each country possibilities in a flexible manner. Under the ALADI system, there are today preferential areas, free trade areas and customs unions.

In a preferential area tariffs are reduced only for some products and other trade barriers are maintained. That is the case of the relationship among most ALADI countries. In a free trade area tariffs and other trade barriers are eliminated, but each country maintains its own trade policy in relation to non-member-countries. That is the case of the Chile-Mexico FTA, the Mexico-Colombia-Venezuela FTA and the new MERCOSUR-Chile FTA, that started October 1st, 1996. A customs union, besides the free trade among its member, must adopt a common trade policy and a common external tariff. That is the case of MERCOSUR and the Andean Community.

There are no examples of more advanced forms of integration in Latin America, such as common market and economic union. A common market requires not only free circulation of goods and services, but also free circulation of production factors, while an economic union member countries also have common macroeconomic policies. Europe has already completed the common market stage and is now going toward economic union.

The main objective in Latin America, as stated in the Montevideo Treaty, both in 1960 and in 1980, and in the Asuncion Treaty, is to achieve a common market. Despite its name, MERCOSUR is not a common market, yet. In January 1st, 1995, it entered the customs union stage, moving from the preferential area and the free trade area stages. This customs union is still to be completed because, first, the trade flow inside the area is not totally free from tariffs, 5% to 10% of the trade among MERCOSUR member-countries deals with products in the so-called exception lists, which will last until January 1st, 2000 and, second, the common external tariff has, along with the products with uniform tariffs, three long lists of products with different tariffs in the different countries. These three lists are for capital goods, computer and telecommunications goods, and an exception list with products from several sectors and they are to be extinct in January 1st, 2006, when MERCOSUR will be a complete customs union.

The growth in the trade flow among Argentina, Brazil, Paraguay and Uruguay after MERCOSUR was huge. Brazil, for example, exported, in 1990, US\$ 1.3 billion to the other three countries. In 1995, its exports to the same countries went up to US\$ 6.15 billion, an increase of 373%, compared to an increase in total exports of only 48% in the same period. MERCOSUR trade now represents 13.2% of Brazilian total exports, as compared to 4.1% in 1990. For Argentina, Paraguay and Uruguay, Brazil is now the main trade partner, both in exports as in imports, ahead of the United States. 90% of these exports are manufactured goods with high added value, as compared to 53% to the rest of the world.

In order to implement and consolidate a customs union, it is necessary to harmonize and, in some cases, unify customs legislation. As a consequence, customs administrations must be uniform and integrated into a single agency, under the assumption that the territories of the member-countries are part of a unified customs territory.

From the standpoint of the judicial system, this process can be conducted in two ways. The first one starts from the operational rules in order to generate a common customs practice among the officials of the member-countries. This was how the European Common Market did its unification: the community regulations were prior to the common customs code, which was effective only in 1993, 36 years after the Rome Treaty and 25 years after the customs union was established. The second way, which was adopted by MERCOSUR, is to impose the new customs regulations starting

at a higher level, that is to propose a customs code and have it approved by the parliaments of member-countries.

MERCOSUR's Customs Code is still being examined by the parliaments of the four countries. It contains a series of concepts, classifies customs operations and regimes, and lists customs controls that are universally accepted, because based in the Kyoto Convention, an international agreement that regulates customs procedures.

Consumers Rights and Competition Protection

The discussion over the issue of consumers rights in MERCOSUR started in 1992, during the 2nd Common Market Council Meeting. In 1994, the Ouro Preto Protocol mentioned the subject and, in 1995, the Trade Commission created a committee to try to harmonize the legislation in the member-countries.

In fact, little has been done in this area because of the enormous differences in which the issue is faced in the four countries. The conflict between consumers and firms become even more complex when there is divergence between the laws of the countries involved in trade/consumer relations. Lack of harmonization in this area makes consumers feel unsafe and unprotected, with negative impacts over trade.

Brazil has a Consumers Protection Code which is far ahead Argentine legislation in assuring consumers rights against companies, while legislation in effect in Paraguay and in Uruguay does not mentioned the subject. So, the other countries see Brazilian legislation as a non-tariff barrier to trade within MERCOSUR. Brazil has a very advanced, by international standards, consumers protection legislation and cannot lower the level of protection granted to Brazilian consumers and wishes this legislation to be the paradigm for MERCOSUR.

Up to this moment, while regulation over the issue is been negotiated, each country is enforcing, in a non-discriminatory way, its legislation on the subject.

Competition protection has been an issue in MERCOSUR since the Asuncion Treaty, which specifically mentions it in sections 1 and 4, assuring adequate competition in the area. Furthermore, it obliges member-countries to harmonize their internal policies and pass common legislation on the subject. The Ouro Preto Protocol established a minimum working agenda that includes anti-trust and anti-dumping legislation and establishes that in intra-MERCOSUR trade there will be no safeguard clauses.

While this new regulation over unfair trade practices is being negotiated, a temporary procedure, in which a country can prefer the others legislation over its own, if it is more favorable, is in effect. The Trade Commission is in charge of implementing the necessary instruments, proposing new ones and examining the eventual complaints from member-countries.

The general guidelines for competition protection are expected to be presented by December 1996. By 1998, there should be in effect an operational agreement among the national agencies in charge

of competition protection and by the year 2001 common legislation, according to the general guidelines, should be in effect in all member-countries.

Industrial Policy

The first objective of MERCOSUR was to create a free trade area among the four member-countries and what has been done so far, in such a short period of time, is expressive. The second objective, the customs union, has also been in effect since the adoption of the common external tariff, in January 1st, 1995.

As already said, there are three exceptions to the common external tariff. The first one is the capital goods sector, which differs significantly among the four countries, Brazil's industry being the most developed, followed by Argentina's, while in Paraguay and Uruguay this sector is inexpressive. Brazil had a high level of protection to its capital goods industry, while the other countries had almost no protection at all in order to stimulate investment and modernization in their economies. In 1994, Brazilian tariffs were, in average, close to 35% and went down to 20% by 1995. The goal is to progressively reduce it to 14%, which means a significant reduction for Brazil, but a progressive increase for the other three countries.

Computer and Telecommunication industry is another exception, as far as its main products are in the list. The common external tariff for this sector was fixed in 16%. There is a progressive schedule aimed at reducing Brazilian tariffs and raising the others, because the situation of this industry, in each of MERCOSUR member, is similar to that of capital goods, that is, Brazil having a more significant sector.

The third exception is a huge list of products from different sectors, an average of 300 products for each country, for which the common external tariff will apply only on year 2001, except for Paraguay, which 399-product list will hold until year 2006.

The Auto industry, although not included in the exceptions, has had a special treatment. In fact, it involves both intra as well as extra MERCOSUR trade, because it affects the common external tariff, and also involves some special duty systems, the so-called "automotive regimes", in effect in Argentina and Brazil, which impact on intra MERCOSUR trade.

Brazil and Argentina have, for many years now, given tax incentives to auto companies established in both countries. Recently, some companies, taking advantage of MERCOSUR, moved from Brazil to Argentina and continued to sell their cars in the Brazilian market at very low tariffs. This contributed to worsen Brazilian trade deficit, already pressed by large auto imports from other countries. Brazil raised tariffs on autos and create a quota system, under which tariffs would be lower. Japan and South Korea complained against Brazil on the World Trade Organization - WTO and the system is likely to be condemned by that international organization.

The only quota system accepted under MERCOSUR is applied to Uruguay's CKD vehicles, which are inexpressive in terms of trade flow.

The Brazilian "automotive regime" gives a 70% market share or a 70% external tariff to vehicles produced internally. On the other side, auto companies installed in Brazil can import auto parts at a 2% external tariff, which is pressing the Brazilian auto parts industry. This sector, although being a technologically up-to-date industry is unable to keep competitiveness under such trade policy, which only allows high returns to the auto industry.

As an example, Metal Leve, one of the leading companies in the Brazilian auto parts industry, could not survive such market strategy and was just sold to a foreign group.

Despite this temporary shortcoming, it was agreed that a common "automotive regime" is to be established among MERCOSUR members, which will include a common external tariff, free trade (meaning zero tariff) in the area and no industrial policy instruments that could risk competition.

Another sector worthing some comments is the textile industry. Due to its characteristics and specificities, this highly competitive industry is under a series of control instruments, like quotas, tariff restrictions and even import bans. Dumping complaints against some East Asian countries is the main reason for these trade barriers, but MERCOSUR have already established a special working group to deal with the problem.

In an overall perspective, the trade flow - total imports and exports among the four countries - grew significantly, from US\$ 8.3 billion, in 1990, to US\$ 28.5 billion, in 1995. As far as Brazil is concerned, the trade flow went up from US\$ 3.6 billion, in 1990, to US\$ 12.9 billion, in 1995. While in 1990 only 4.2% of Brazilian exports were headed to Argentina, Paraguay and Uruguay, in the 1st quarter of 1996 this percentage went up to 14%. On the imports side, only 7% of Brazil trade was done with the other MERCOSUR member-countries in 1990, while in the same period (1st quarter of 1996) this number was up to 17%.

Due to the enormous difference in the sizes of their economies, 70% of this trade flow is between Argentina and Brazil, 15% with Uruguay and 13% with Paraguay. Today, Brazil's main trade partner is still the United States, but Argentina is already the second and the bilateral trade with Paraguay and Uruguay is greater than that with Spain and the United Kingdom, for example.

Back to the industrial policy issue, it is worthy noting how the institutional structure for this subject was set up in MERCOSUR. At first, there was a working group in charge of industrial and technological policies. After the Ouro Preto Protocol, this working group was replaced by two new ones, called Industry group and Technology Policy group, respectively. Formally, there is no group in charge of discussing industrial policy in MERCOSUR.

This is very important to understand how the issue is viewed inside MERCOSUR. The concept of industrial policy has become an annoying topic. From a liberal point of view, there is no room for such thing, because it creates market distortions. Industrial technological development is assumed as a consequence of macroeconomic stabilization and market opening, in other words, as being a result of policies that affect evenly all economic sectors.

Another interesting corollary of this institutional setup is the difficulty of dealing with the industrial and technological issues in a harmonic way. This has been a problem with the Brazilian industrial

technology policy, as far as scientific and technological development has always been separated from industrial development.

Technology policy must have enterprises as its axis, so industrial technology issues should be part of it. This does not happen in Brazil because the scientific community sees their role as basic researchers and not as researching for enterprises. This was what happened to MERCOSUR working group, it became a specialized group discussing issues like connection to the Internet, how could researches from different member-countries exchange scientific and technological information, technical cooperation among universities, research institutes and so on.

In fact, there is an implicit industrial policy in MERCOSUR, which is not only a result of economic integration. It is the undoing of the national policies aimed at creating protected markets and stimulating import substitution, and in this sense it is correct to say that MERCOSUR member-countries have moved far toward harmonizing their technological and industrial policies in this direction. That is to say, in destroying previous protectionist policies the four countries became much more alike.

The question now is: is there need for any type of industrial policy in MERCOSUR?

The answer is yes. The lack of an active industrial policy may lead to a second class type of development, as we can observe from data on unemployment in the Brazilian industrial sector - 2 million working positions were terminated this year. Brazilian exports, although having a good performance, despite of overvalued currency, are more and more based in less sophisticated products, with less added value and have its competitiveness founded in cheap labor. This kind of competitiveness is hard to be maintained, because there is cheap labor all around Third World countries and it is difficult to compete through poverty and reduction of labor costs.

A quick look at shoe and textile industries and how they compete in MERCOSUR would be enough to recognized the importance of an active industrial policy aimed at enhancing competitiveness. But reality has worked the other way, today there is not much room for this type of strategy, basically for three reasons. First, the dominant liberal ideology that leads policy-makers, Press and members of the Congress to state that the best policy is no policy at all. Second, MERCOSUR institutional structure is somewhat fixed and does not allow for individual countries to adopt different policies. And, third, the huge differences in the industrial structures of member-countries, which make it very difficult to find a common industrial policy acceptable, in terms of development, employment, efficiency, exports and technological sophistication, by the four countries.

Macroeconomic Policies

The original MERCOSUR institutional structure had, in the Common Market Group, two working groups related to macroeconomic policies. The first one was in charge of fiscal and monetary policies and its impacts on trade and the second one dealt with harmonization of macroeconomic policies in general. Both groups were supervised by the Common Market Group and by meetings among the ministers of Finance and presidents of the Central Banks of the member-countries.

The issues to be discussed on fiscal and monetary policies related to trade were:

- capital markets, stock exchange and future exchange;
- harmonization of procedures on imports over a year term;
- harmonization of exchange regimes related to freight;
- financial and credit insurance policies to exports;
- harmonization of capital flows, profit remittances, dividends and royalties;
- insurance, including medical insurance;
- exchange regimes;
- agreements over foreign investments; and
- comparative analysis of financial systems.

Most of the discussions were restricted to identifying differences and keeping comparative tables of the situation in each country, in order to help the proposition of the new legislation needed to adjust the member-countries policies in the area.

There was great progress in the issue capital markets toward least regulation which would allow citizens from one country to invest in the others and companies from one country to issue shares in the others, with common criteria for accounting information, for investment funds and for public bonds.

In 1991, there was already an agreement between the São Paulo and the Buenos Aires stock exchanges that, along with resolutions from the Brazilian Central Bank, allowed the Argentine oil company to negotiate its shares in Brazil during its privatization.

Important progresses were also made in the area of central banks deregulation, allowing the existence of automatic telling machines that let one person draw funds directly from his/her account in another MERCOSUR country, already converted by the exchange rate. The minimum capital requirements established by the Basel Agreement were adopted for the MERCOSUR banking system.

The promotion and reciprocal protection for foreign investments faces the problems related to previous international agreements with other countries and, specifically, some restriction imposed by the Brazilian Constitution.

The issue insurance market was blocked by the legal state monopoly in Brazil, recently revoked, and in Uruguay and in the closed Argentine market. But it was possible to conceive the basics of an international insurance policy for automobiles drivers.

The second group was in charge of the following subjects:

- establishment of the common external tariff, including its harmonization with GATT criteria;

- exchange of macroeconomic information;
- member-countries tax structure at national, state, provincial and local levels;
- questions related to the adoption of a common currency;
- services;
- competition protection and state monopolies; and
- consumer protection.

The elaboration of the common external tariff, adopted since January 1st, 1995, when the Ouro Preto Protocol was effective, was the most important task performed by this work group. There was a consensus over a tariff bracket of 20% for most products and special regimes of 35% and 70%, to be excluded by 2001 and 2006, respectively.

In order to promote the exchange of macroeconomic information, the group agreed on the making of a statistical book to be published semi-annually.

Discussion over the other issues had the same difficulties as in the first group, so it was limited to the identification of differences among the countries and the maintenance of comparative tables, which was also hard due to the continuous change in the countries legislation.

In the new institutional structure established by the Ouro Preto Protocol, the two working groups merged, forming a new working group with the following broader attributions:

- banking systems, including:

- . consolidated banking supervision;
- . enhancing of information exchange, specially those involving risk activities and privatization;
- . reduction of regulation differences among member-countries;
- . equal treatment, as they were national, for banks from MERCOSUR countries;
- . technical cooperation in the derivative markets and new financial markets; and
- . money laundering;

- insurance markets, including:

- . harmonization of insurance activities;
- . improvement of existing agreements;
- . insurance for multimodal freight;

- . technical cooperation on insurance markets integration;
- . information exchange on regulation and supervision;
- capital markets, including derivatives, multilateral investment funds and improvement of existing agreements;
- investment promotion and protection;
- macroeconomic indicators; and
- exchange rate regimes.

The new working group started its activities only in 1996 and have, so far, continued what the previous groups were doing.

The process of economic integration, regardless of its extent, reduces the freedom national governments have over the conduction of its economic policies. Particular objectives of internal macroeconomic policies are overran by objectives defined internationally, by the member-countries as a group or by a transnational organization.

The extent of the reduction in the freedom to fully exercise macroeconomic policies depends on the complexity of the integration process and on how the country is involved on it. The net result will depend on the overall impacts on trade and income.

Even in very simple preference areas, the power of individual countries over international trade policies is reduced. In a customs union, like MERCOSUR, member-countries lose their ability to establish tariffs in favor of the integration organization. A common external tariff is not, by itself, enough for the consolidation of the integration purposes, because the effects resulting from a change in tariffs can be compensated by fluctuations on the exchange rate. So, for more complex types of economic integration, like a common market, it is necessary to coordinate the exchange rate policies to a point of maximum convergence.

Exchange rate stability rather than its level is the important point. On the other hand, maintaining stable exchange rates means less control over the money supply, eliminating the most important instrument in monetary policy, leaving the government only with open market operations and banking reserves requirements. The interest rate, thus, will be more sensible to market influence.

In MERCOSUR, only Paraguay has a free exchange rate. Brazil and Uruguay uses the "crawling peg" system and Argentina has a rigid exchange rate. In the last few years, Brazil and Argentina have followed monetary policies aimed at exchange rate parity, which has contributed to strengthen intra MERCOSUR market.

In Argentina, the fixed parity is always being challenged by speculative expectations, which demand greater efforts from economic authorities to keep the stability of the exchange rate.

The stability of the exchange rate in Brazil happens at the same time as high interest rates are maintained to support price stability. Assuming that exchange rate stability led to a currency

overvaluation, the final result over the money supply will depend on the relation imports-exchange rate and inflow of foreign capital-internal interest rate. The growing international reserves indicates that the second effect prevails.

Both in Argentina and in Brazil, the foreign currency chosen as the exchange rate anchor was the US dollar, a currency from outside MERCOSUR. The choice is based on its international acceptance as a mean of payment, due to the high American trade flow. In the European Union, the anchor currency, the German mark, is from a member-country. This has the advantage of a mutual pledge to the stability of the system as a whole, what does not happen in the case of Brazil, Argentina and the US dollar.

The intensification of economic integration toward an economic community implies full harmonization of monetary and exchange rate policies, until the adoption of a common currency. In macroeconomic terms, the national governments will control only the fiscal policy, but even this will be conditioned by the integration goals. So, national governments will decide only how to spend tax revenues, besides microeconomic and sectoral policies.

It is too early to assert that MERCOSUR will follow this path.

MERCOSUR Perspectives

One may wonder how Latin America moved in such a short period of time from the geopolitics of the military rule, which was based in hegemony and absolute sovereignty, to the logic of integration and free market. Of course, the end of the Cold War and the consequent changes this brought into world politics was important, but we also have to consider the political and strategic aspects of the decision to create a common market in the southern cone. MERCOSUR is not only an economic group, it gives its members more relative weight in international forums, such as the World Trade Organization - WTO, and in negotiating new agreements, such as the Free Trade Area of the Americas - FTAA, which conformation is being discussed now.

An important political effect is to strengthen democracy in the region. Brazil and Argentina do not move troops in their common border as they used to do when both countries were under military rule. The presidents Argentina, Brazil and Uruguay played an important role in keeping democracy in Paraguay during the recent attempt from some Paraguayan military commanders to overthrow the legitimate government of that country. Peace, stability and democracy are side effects of integration.

In the internal front, the next developments in MERCOSUR are all addressed at consolidating the trade instruments agreed so far and implementing the necessary legislation to conform the customs union. The 7th MERCOSUR Summit, which took place in Punta del Este, Uruguay, in December 1995, approved a strategic plan for MERCOSUR until the year 2000, which foresees the elimination of all tariffs within the customs union and the adoption of common anti-trust, consumers protection and unfair trade rules, besides the improvement of the institutional structure of MERCOSUR .

There is also a lot to be done in the external front. The Ouro Preto Protocol, as said above, gave MERCOSUR judicial status in international law, what allows it to participate in agreements with other international organizations. This has been done in the case of the North American Free Trade

Association - NAFTA, the new hemispheric free trade area - FTAA and in the free trade agreement with Chile, signed in July 1996. Venezuela might also join MERCOSUR in the same condition as Chile, e. g., as an associate.

The trend now, in Latin America, is to aggregate countries with different economies. Brazil pushes in this direction, as it works first to strengthen MERCOSUR and then think about FTAA, proposed to be established by the year 2005.

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