

Instituto Cultural Minerva

Institute of Brazilian Business and Public Management Issues

The George Washington University

Washington, DC

MERCOSUR – AN EVALUATION

A Brazilian Point of View

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Fall 1997

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INTRODUCTION

There have been a number of initiatives among Latin American countries in the past years to deepen and widen their regional trading arrangements as well as to seek closer links with their extra-regional trade partners. As in previous years, efforts to deepen integration among members of existing schemes in the Hemisphere have focused mostly on market access and institutional issues. In South America, the Southern Common Market – **Mercosur** is following its program of deepening integration, and has recently widened the scope of its free trade area by signing association agreements with Chile and Bolivia and an economic cooperation agreement with the European Union. The creation of **Mercosur** is certainly the most economic significant fact for the economies of Brazil, Argentina, Uruguay and Paraguay.

The purpose of **Mercosur** was to establish a common market which would include the free movement of goods, services and factors of production, the elimination of customs duties and non-tariff restrictions, the establishment of a common external tariff and the adoption of a common trade policy, and the coordination of macroeconomic and sectoral policies. The fundamental elements of a common market were achieved by January 1, 1995 with the establishment of a common external tariff and the reduction in stages of internal tariffs subject to a number of significant subsector exceptions.

The four countries which make up the Customs Union cover a territory of approximately 12 million sq.km., covering 59% of Latin America total area. The **Mercosur** population (about 200 million people) represents almost 50% of the Latin America population. The Gross Domestic Product (GDP) of the **Mercosur** is running at US\$750 billion and the per capita income of its inhabitants is US\$3,259.

The formation of an integrated economic space in the Southern Cone of America generated a variety of reactions from the private economic agents. Once the **Mercosur** was relatively consolidated, new business strategies began to unfold wherein the trade bloc became the unavoidable point of reference. Several hundred agreements were seen between firms in the region who linked themselves, directly or indirectly, with the formation of **Mercosur**. It is of particular interest to note there are some 300 Brazilian companies in Argentina, mostly installed in the nineties. This shows the emergence of a new tendency, although yet incipient, could have greater influence over the next few years. One of the most outstanding aspects of this new tendency is the development of associative tendencies and of transfrontier co-operation among enterprises. The firms are developing a propensity to form strategic alliances with companies in other countries.

In Brazil, **Mercosur** has obtained from the entrepreneurial organizations and social specific segments a special motivation to reevaluate internal strategies and to find alternatives for international articulation in negotiations. The enormous quantity of news in the media shows how interested are the economic agents in relation to the theme "**Mercosur**" and also presents a sample of the repercussion of the matter in the society as a whole. **Mercosur** is presenting itself to be part of the public opinions schedule in the coming times.

When the integration project was launched, initiated by the Presidents Sarney/Alfonsin (from Brazil and Argentina, respectively), it was seen, by the Brazilian society in general, as only another attempt to reach Latin-American integration. An attempt full of good intentions, but addressed, apparently, to utopian goals.

First came the suspicion: "Will this integration among Argentina, Paraguay, Uruguay and Brazil really happen?..."

Other questions were raised: "What is going to happen to the less competitive sectors of the economy? Will they have time to improve their competitive capacity... or to revert themselves into the search of another activity in which they will be able to face competition? But, what about those that will not be able to compete anyway?"

With the discussion that took shape in the society, an extremely creative focus emerges. It is the idea of facing **Mercosur** not only as a market and competition enhancement, but also as a learning process for the globalization.

This paper will, at first, describe, in details, the previous experiences in Latin America as regards economic integration. The next topic gives us an idea of some of the problems and difficulties for the establishment of the bloc, such as issues of infrastructure in transportation and energy. It covers at the other side the institutional framework of **Mercosur**. The following section makes an evaluation of **Mercosur** during the period 1995/1996, including trade, the deepening of the integration process, the political dimension, external negotiations, and, finally, the major questions of the period.

Regional Integration – Prior Experiences

The first studies of economic integration in Latin America date from the end of the 1940s and the beginning of the 1950s. The United Nations Economic Commission for Latin America elaborated preliminary studies for a Latin American common market. Under the development oriented perspective at that time, based on the import substitution model, the creation of a Latin American common market would have mainly the function to enhance the limited national markets. The goal was to obtain economies of scale by taking advantages of each country characteristics, and so supporting and accelerating the industrial development. Thereby, because the high level of industrialization reached by the end of the 50's it seemed that the possibilities and the fundamental conditions existed in order to initiate the integration process.

However, the first attempt to create a common market in Latin America would occur only in the early 60s with Treaty of Montevideo establishing the Latin America Free Trade Association - LAFTA. The Treaty provided for the creation of a free-trade zone by means of periodic and selective negotiations between its member states: Argentina, Brazil, Chile, Mexico, Paraguay, and Peru. Uruguay, Colombia, Equator and Venezuela also joined the Association later on.

LAFTA's goal was the achievement of a regional common market in 12 years time. This would be accomplished mainly because of the markets development and growth that was to happen as a result of the removal of protectionism measures through multilateral negotiations, resulting from tariff reductions, as well as from non-tariff restrictions. LAFTA was conceived as a mechanism to provide greater trade liberalization to the most developed countries of the region (Argentina, Brazil and Mexico). As regards the other lesser developed countries, the objective was to stimulate their industrial growth and to complement their economies. The LAFTA trade opening developed reasonably well in its early years, but it lost impetus as of 1965. The distance between its original objectives and the results was very great.

Besides, the Treaty which constituted the LAFTA did not enforce the implementation of any investment plans by the participating countries nor any macroeconomic policy harmonization (fiscal, monetary and exchange). Each country formulated its own policy without any coordination or previous consulting with any other member country. This aspect certainly made the establishment of a common market very hard. It became even clearer during the 70s, after the first petroleum crisis when all the multilateral negotiations stopped, product by product, and the larger countries (Argentina, Brazil, Mexico and Venezuela) prioritized their own national development plans.

By the end of the 70 the practical difficulties, the lack of political wiliness and proper mechanisms to make the regional integration a reality resulted on an obsolescence of the process. In addition to all those circumstances, there was the negative repercussion of the economic recession during the 80s in the continent, aggravated by the external debt of the more developed countries (Argentina, Brazil and Mexico).

Some efforts had been made earlier in order to prevent LAFTA from ending. This way, one of the solutions presented was in fact implemented in 1969, through the Cartagena Sub-Regional Integration Agreement. It was when Bolivia, Chile, Colombia, Equator and Peru created the Andean Group as an attempt to give more dynamism to the region's integration once the results presented by LAFTA were not satisfactory. Said agreement intended to implement a duty lifting program, a common external tariff, a differentiated treatment as regards foreign investments, as well as the creation of a financial organization to help regional development programs.

Despite the pragmatism of the initial proposal and its consistency, in 1987, the participants of the Andean Group at that time reunited in Quito, recognized that the Cartagena Agreement had been totally disregarded by the signatories.

At the beginning of the 80s, due to the growing external difficulties faced by Latin American countries, mostly related to external debt, as previously mentioned, to the creation of other economic blocs and to a growing protectionism, the integration process reached a new dimension. The Latin American Integration Association-LAIA was created to replace LAFTA. It used other means to attempt integration of member states and an economic preference zone was established. New instruments were defined to allow regional trade between the participants. This created favorable conditions for the growth of bilateral initiatives, as a prelude to the institution of multilateral relationships in Latin America. The emphasis on those bilateral agreements was a consequence of the particularities of each country member as well as the recognition of the failure of the previous experience based on multilateral agreements and the recent experience of the agreements signed by Brazil, Argentina and Uruguay in the mid 70s. LAIA allows agreements among pairs or groups of member countries without extending the benefits granted by the signatories to other member countries of the Association.

Among the new instruments created by LAIA, the RCP-Regional Customs Preference (*PAR-Preferencia Alfandegaria Regional*), which became effective in 1984, had a special importance. The RCP established a gradual reduction of customs duties on imports of regional goods among member countries, taking into consideration their level of development. It sought to adopt more flexible and pragmatic instruments of integration, as compared to those of LAFTA.

The crisis of the 1980s produced profound changes in the concept of economic development held up to that time by the countries of the region, and towards the end of the decade they began a process of structural reforms. The most important reforms are external opening and the new concept of regional integration as a medium to facilitate competitive entry into the international economy. This latter concept, which was fundamental to Mercosur and the agreements that preceded the bloc between 1985 and 1990, replaced the formerly held concept of integration as an expansion of the regional and subregional markets but having some protection for competition from third countries.

Political actions were necessary in order to accelerate the Latin American integration process. Specifically regarding the commercial relationship between Brazil and Argentina, the search for an increasing trade liberalization was mainly translated by the bilateral agreements signed in July 1986 called PEIC (Program for Economic Integration and Cooperation). This program, focused on the creation of a common economic space, concluded several sectoral agreements aimed at increasing trade in products included in various sectors such as energy, transport, nuclear energy and air transport. Under the LAIA system these two countries initially signed 12 commercial protocols but in 1988 they were already 24.

Seeking the strengthening of their relationship and mindful of the progress made under PEIC, Brazil and Argentina signed, in November 1988, the Treaty for Integration, Cooperation and Development (TICD), setting the stage for a common market between them within ten years. It was established that this agreement would be open to all other Latin American countries. The Treaty introduced radical changes in the mechanism for sectoral negotiation through the list of products used by PEIC. Its objective was the elimination of all tariff and non-tariff barriers on the trade in goods and services by a gradual process. For the first time an agreement was reached to proceed with the gradual harmonization of economic policies and coordination of monetary, fiscal and exchange with the purpose of constituting a common market.

The success of this new strategy resulted in a significant increase in trade flow between both countries. Thus, in July 1990, by signing the Act of Buenos Aires, the Presidents Fernando Collor de Melo (Brazil) and Carlos Menem (Argentina) decided to accelerate the integration process started in 1985 by anticipating to December 1994 the establishment of a free trade area.

The Act introduced an important change in the previously applied strategy. Instead of adopting sectoral protocols, which looked for commercial and industrial complementation among sectors, a general and automatic integration scheme was adopted.

The impact of this measure was immediate. In 1990, Paraguay and Uruguay were invited to participate with Brazil and Argentina on the establishment of a market until the end of 1994.

As a result, the four countries signed the Treaty of Asuncion on 26 March 1991, providing for the creation of a common market among the four participants, to be known as the Southern Common Market - **MERCOSUR**.

The evolution of these events shows the development of the idea of integration in Latin America, a continent that can not stay lethargic, observing the formation of economic blocs by the developed countries. On the other hand, the prudent guidance of the sub-regional process

of integration demonstrated the efficient way to conduct a definitive economic union. It started by integrating countries geographically and historically closer and then expanding with the adhesion of others, as the intended improvements become reality.

Institutional Structure

The purpose of **Mercosur** is to create a common market in which goods and services can be freely traded among member countries and to permit the unrestricted movement of factors of production (labor and capital). And also the coordination of macroeconomic and sectoral policies and the harmonization of national legislation in order to enhance competitiveness.

The institutional evolution of Mercosur is divided into two clearly defined periods: 1) the initial transition period, when trade liberalization was phased in under the Treaty of Asuncion; and 2) the consolidation period, which began in January 1st, 1995, when the customs union took effect with the application of the common external tariff.

Thus, in order to institutionalize the integration process, the four members granted the Common Market Council (CMC) the authority to act as legal representative of the group. The CMC – comprising the foreign ministers and ministers of economic affairs – is **Mercosur**'s highest policy-making body. It has operated until now with the Presidents of its four member countries in attendance, who shall meet at least once a year or whenever necessary. Decisions shall be made by consensus. In addition, the current executive structure was maintained, with the Common Market Group (CMG) as principal body responsible for proposing draft resolutions to the CMC and making the necessary arrangements to comply with the CMC's decisions. It has the authority to organize, coordinate and supervise Working Subgroups and to call special meetings to deal with issues of interest. Furthermore, there is the Trade Commission (TC), responsible for coordinating common trade policy and supervising implementation of the common external tariff; the Joint Parliamentary Commission (JPC), with both an advisory and decision-making nature. The JPC is competent, *inter alia*, to follow up on the integration process and keep the respective Congresses informed and make the necessary adjustments for the distinct member states harmonization laws. The Economic and Social Advisory Forum, consultative by nature, it represents the various socioeconomic sectors of the member nations. The Administrative Secretariat is in charge of keeping documents and issuing the Mercosur official bulletin and also of communicating the activities of the Common Market Group. It is headquartered in Montevideo (Uruguay).

These bodies are of intergovernmental nature, what has helped to overcome the jurisdictional problems inherent in supranational agencies.

Problems and Difficulties for the Establishment of Mercosur

Although the idea of Latin American economic integration had had its origins at the beginning of the 50's, under the impulse of the United Nations Economic Commission for Latin America and having different purposes than those existing nowadays, a more effective regional integration just happened to come lately. In this way, the countries involved in what some people call project of integration (**Mercosur**) have among themselves the characteristics of being democracies that were recently implanted. They all face internal adjustment problems

(inflation) and external (external debt) and have important agroindustrial systems, even though suffering strong disadvantages in terms of trade due to the European protectionism policy.

In addition, the continent's democratization made possible a strategic review of the conditions that had influenced the Latin America's position as a region put aside in the world trade, through a process that was called by Enrique Iglesias (Inter-American Bank of Development) as the Latin America "silent revolution".

In contrast to the previous motionless years, nowadays there is a clear disposition (inclination) of the governments of the region to act in two distinct plans (levels): the strengthening of sub regional schemes of integration, and the adoption of commitments in order to create free trade areas.

In 1991, a document published by ECLAC entitled "La Evolucion Reciente de los Processos de Integracion en America Latina y el Caribe", by that time mentioned the approximation between Brazil and Argentina, indicating a new phase in Latin American integration. The document emphasized a simultaneous opening to the regional and international trade, the elimination of all kinds of barriers to the interchange, and the effective integration between the two economies by means of trade creation.

Mercosur and other instruments of integration show, without doubt, this "new era", more mature and advantageous to all countries of the region which are making efforts to create a powerful economic space, not only in terms of regional but also in terms of international trade.

It is important to mention that the basis of this process lays in the existence of democratic regimes, once the military ones had leaded to the isolation and frontiers defense. The Treaty of Asuncion does not express any enforcement establishing any guidance in case of a takeover jeopardizing the democratic system in any of the participant countries. But in the Las Lenas Summit, held in June 1992, in Argentina, the four **Mercosur** countries reaffirmed the effectiveness of the democratic institutions as fundamental for the existence of the bloc.

The Minister Caballo (Argentina), referring to **Mercosur**, pronounced at that occasion that it is " transcendente no solo para las negociaciones economicas que tienen que ver con el comercio, con la captacion de inversiones, con la definicion del perfil de nuestras industrias y de nuestra actividad productiva, sino tambien con todos los aspectos relacionados con la obtencion, la incorporacion y la utilizacion de tecnologia y en cuestiones vinculadas a la política o a la seguridad internacional".

The Brazilian Minister of Economy, Mr. Marcilio Marques Moreira, declared in Las Lenas that Mercosur is a very important bloc – it is a way to insert the countries in the world, with sovereignty, freedom and competitiveness.

Without considering the optimism coming from the official announcements, the truth is that the attainment of free circulation of goods, capital and labor, the freedom of establishment and competitiveness imply the adoption of actions in various levels to overcome the differences that are now generating uncertainty for the common bloc constitution.

The macroeconomic coordination program approved in Las Lenas set up a sequence of targets for the Common Market formation starting on January 1st, 1995. It was a really ambitious timetable, taking into account the timeframe that other common economic spaces, like the European Economic Community, needed to mature. A chronogram was agreed upon by the four signatory countries, in the Argentine province of Mendonza, aiming at the policy adjustment in more than 100 subjects. Among those subjects were exporting credit, insurance, tax and financial legislation, free trade areas, customs harmonization policies, exchange regime, etc.

Perhaps one of the main difficulties is the harmonization of economic policies. The traditional stabilization policies, via fiscal and monetary adjustments and those via price controls, so common in Latin America, create an obstacle to meet the goals of integration.

The Common External Tariff, another important factor characterizing the Common Market, in view of the enormous difficulties that its adoption conveys, will be adopted definitely only in 2006.

Paraguay and Uruguay, in particular, with their free market economies, an unique rate exchange and no restrictions on capital movements and the dividend remittances to the original country of investment can aspire to be **Mercosur** financial centers.

Regarding **agroindustrial policies**, the **Mercosur** countries must meet some natural comparative advantages and put an end to the unfair practices in agricultural trade. The industrial sectors in Paraguay and Uruguay are very incipient. In contrast to the lack of industrialization in those two countries, Argentina is a leader in the food processing sector. Brazil has also a very good industrial and technological productive structure, besides counting on a subsidies program for the agriculture sector, and sometimes, with an export promotional regime – points in which there can be noticed some differences from Argentina.

The Brazilian rural sector does not accept the agricultural sector zero tariff for the free trade area, while the member countries do not achieve harmonization of economic policies. The major difficulties in the agricultural area are related to wheat, dairy products, fruits, sugar, alcohol, and, to a lesser extent, poultry.

The free transit of goods will also require the standardization of technical and sanitary specifications for agricultural and manufactured products of the member countries (the main "battleground" between Argentina and Brazil), as well as improvement of the criteria to determine the origin of the products, since the Annexes of the Treaty of Asuncion present some omissions.

With regards the **fiscal situation**, Brazil and Argentina have very distinct profiles. Brazilian products are in general highly taxed, chiefly by indirect taxes. So, as an example, powdered milk has a rate of 20,65%, while in Europe the tax is less than 6%; orange juice in Brazil has a 20,65% tax included – in Mexico this figure is less than 10% and in the United States it is 0%. Just to better illustrate the scenario, a Phillips product that in Brazil has an rate of 40,65%, in Holland has only 17,50%.

Meanwhile, Paraguay and Uruguay have very low tax rates and Argentina, because of its domestic market opening, has also lower taxes when compared to Brazil.

It is, thus, necessary that member countries achieve tax system harmonization, in order to make taxation as neutral as possible over the costs of production.

One of the main aspects in the integration process of **energy sources** among the Mercosur countries is to better adjust the use of natural sources in economic and environmental terms. This will permit growth of efficient energy production with cost reduction. Thus, parallel with the development and operation of the first free trade agreement, the countries of the subregion promoted joint hydro-electric projects on the frontier rivers which are among the most important in the world. Currently, the charges for power in Argentina are high if compared to Brazil. Brazil and Paraguay have an excess of energy production, in view of the construction of 12,600 MW Brazilian-Paraguayan Itaipu Hydroelectric on the Parana River and the 3,100 MW Yacireta one constructed by Argentina and Paraguay on the same river. Uruguay has scarce and expensive energy, but when the 1,890 MW Salto Grande dam, on its border with Argentina, is operating at full capacity, the situation should improve. These undertakings could bring about positive change in relations among the countries as occurred in the last decades, especially with the signing of the tripartite agreement between Argentina, Brazil and Paraguay. The agreement solved the differences regarding the utilization of the hydroelectric resources of the Parana River, which has one of the greatest potentials on the planet. Thus, formulating an integration plan as well as a survey on the opportunities to exchange energy production is extremely important. Besides any other effort, it is vital to encourage studies on investigating new technologies to preserve and save energy and to create credit lines through international agents with a view to implement the integration in this sector. At this point, it is important to mention that Brazil

negotiated with four multilateral agencies of credit, in November 1997, in Washington, loan agreements for the construction of the Bolivia-Brazil gas pipeline. The project to make the transport and supply of Bolivian gas possible to many regions in Brazil, is one of the largest undertakings of its type in the world and the most extensive on the South American continent. The Bolivia-Brazil gas pipeline will begin in Rio Grande (Bolivia) and will go through the city of Puerto Suarez, crossing the border in Corumba (in the state of Mato Grosso do

Sul -Brazil). From there, it will cross the states of Mato Grosso do Sul, Sao Paulo, Parana, Santa Catarina and then, to its final destination – the Canoas refinery – in the state of Rio Grande do Sul. Another project for natural gas supply is to be signed with Argentina.

The free circulation of human resources demands the creation of an integrated system of technical and professional certificates for those who do not have a college degree. There must be established ways to make the diplomas equivalent on the various levels - university, technical and high school, diminishing the bureaucracy on recognizing foreign diplomas. It would also help in achieving a better coordination of policies and **programs of education** in order to obtain a reasonable educational standard .

Transportation is another question of great importance, since one of **Mercosur's** goals is to accelerate the circulation of goods and services, with transportation and insurance reductions cost. The growth of trade in the subregion has not been accompanied by an integrated solution of the problems in the transport sector, and that is creating bottlenecks for the near future. Therefore it is necessary to enhance the railroad, highway and maritime systems. In addition to that, the reduction of customs bureaucracy would facilitate trade within the region, resulting in better exports and services.

Mercosur has 200,000 km of paving roads, 68,000 km of railroads, an ocean coast of 12,000 km and an extension of 3,000 km on navigable rivers. The annual movement is superior to twelve million tons, 70% of which between Argentina and Brazil, being 90% (ninety per cent) by maritime means.

An emergency program has to be created to quickly restore the transportation system, as well as equipment and installations of regional interest. In southern Brazil, states such as Rio Grande do Sul and Mato Grosso do Sul already took the initiative to rehabilitate their highway system, although, with external loans.

As regards the role played by the private sector in the **Mercosur** scope, it has to be mentioned the agreement signed by Argentina and Brazil in June 26, 1992 for the establishment of Bylaws for Argentina/Brazil Binational Companies (Binational Company Bylaws). This was anxiously awaited by the entrepreneurial sectors of both countries since it allows their capital enterprises to have the same treatment in each country. It made possible the formation of new companies of both nationalities, besides putting an end to the restrictions for the Argentine companies to participate in bidding in Brazil and vice versa.

MERCOSUR 95/96: AN EVALUATION

During its first year as a free trade area and partial customs union, **Mercosur** faced many challenges, mostly related to macroeconomic problems in the two largest economies.

In order to follow the integration timetable, agreed in Ouro Preto (Brazil) by the end of 1994, a lot of concessions were given, especially by Brazil who gave its partners privileged treatment on different matters. Argentina, for instance, maintained restrictions to the importation of many Brazilian goods even after having a guaranteed open access to the national market. This was the case for automobiles and steel products. Uruguay also kept (although for a short period of time) the preferential agreements already existent with Brazil and Argentina. These agreements permitted that country to export various goods without customs tariffs and a nationalization rate of 50% instead of the 60% established by the bloc.

It is also worth mentioning that only a few months after the creation of the customs union, however, the countries of Mercosur faced the challenge posed by the economic situation of their largest members. To counter the effects of the financial crisis and fiscal troubles in Argentina, and Brazil's trade imbalance, these countries adopted, *inter alia*, trade policy measures that included increasing tariffs and expanding the list of exceptions.

To restore confidence in the Convertibility Plan, the Argentine Government launched a fiscal adjustment program in March 1995 with trade measures that have had the indirect effect of making the imports from other Mercosur members relatively more competitive. These measures were: a) the elimination of export subsidies; b) the restoration of the "statistical rate" of 3% on non-Mercosur imports, and c) an increase in tariffs on capital goods from 0 to 10% and on telecommunications equipment from 2 to 10%.

In April 1995, Brazil adopted a number of measures to stop the emerging tide of imports. These measures were: a) increase the tariffs on 109 products (mainly automobiles and durable goods) from 32 to 70%; b) tariff reduction for a number of products to alleviate inflationary pressures; c) broadening of the list of exceptions from 300 to 450 products for one year, and d) establishment of an import quota on cars to 5% of national production, or 8.500 units per year. The first three measures applied only to goods originating in non-Mercosur countries.

Although these measures undoubtedly raise trade barriers with non-member countries, they also have an impact on interregional trade. While higher tariffs Brazil granted real tariff preferences to related exports from its **Mercosur** partners, the quotas on imported automobiles may in fact significantly restrict Argentine vehicle exports, which helped reverse that country's trade deficit with Brazil during the first five months of 1995, but were later attenuated.

But, in spite of the difficulties faced, which demonstrate how complex formalizing any integration process among economies with so distinct sizes and characteristics can be, the customs union, implemented in January 1st, 1995, has showed good results after its first years. During this time, **Mercosur** consolidated as a group always in search of increasing internal cohesion as well as flexibility in the external negotiations. This scenario occurred in a context of undeniable operational and institutional agility as proof that the expectations of the agreements maintained in Buenos Aires in August 1994, as well as the ones signed in Ouro Preto in December of that same year were achieved. Since then, Mercosur exists in its actual configuration.

The period started with the adoption of the common external tariff, with the implementation of the customs union among Brazil, Argentina, Paraguay and Uruguay. These countries developed a series of actions that reflected the strengthening of their relationship. It is important to emphasize the following aspects:

A) Trade

Although it was not the only **Mercosur** successful aspect, the increasing trade flow among its participants is significant and tends to be recognized as the greatest impulse to its advance. The exchange intra-**Mercosur** that reached US\$5.3 billion in 1991 (year when the Treaty of Asuncion was signed) crossed over to US\$15 billion in 1995. Based on those totals the trade figures between Brazil and Argentina went from US\$3 billion in 1991 to US\$12 billion in 1996, reaching the best expectations of complementing nourished since PEIC negotiation by the end of the 80s. This development, however, did not happen at the expense of trade with other countries. In fact, it was the result of elimination of trade artificial barriers, which had led Brazil, a traditional wheat and petroleum importer, not to be supplied by the neighbor's market. Today this distortion is overcome. These two items represent an important parcel of Brazil's Argentine import list (together, they reach about 35% of the total). At the same time, Argentina became the second individual market for Brazilian exports (US\$5,170 million in 1996, or approximately 11% of the total).

The imports from the rest of the world reached, equally, impressive rates: from US\$29 billion in 1991 to US\$55 billion in 1995. With regards Brazil specifically, we verify the following evolution of this account: US\$19 billion in 1991, then US\$ 43 billion in 1995 and US\$ 45 billion in 1996. There is no doubt that the period was remarked by expressive generation of trade.

Regarding Brazilian exports to the rest of the world, there was an increase from US\$ 32 billion in 1991 to US\$ 48 billion in 1996. This way, less spectacular, chiefly if we deduce from these amounts the volume of exports to Mercosur. In this case, the totals would be US\$ 29 billion and US\$ 41 billion, respectively (meaning an increase of 41% against 137% in the Brazilian imports in the same period). These results show that, despite the increasing opening process of the Mercosur member countries' economies (which practice today a common external tariff of about 11% to 12%) there was not a substantial improvement in the access of Brazil's products into its main partners' markets, outside the region.

B) Deepening the Integration Process

In December 1995, the " Punta del Este Summit" approved the "**Mercosur** Action Program Until the Year 2000". The program defines the main guidelines for the consolidation and improvement of the customs union and for the transition toward the common market. The document lists a series of actions to be taken in various sectors, ranging from the free trade among the four countries to the competition conditions, the perfecting of the common trade policy and the legal and institutional development.

Based on this program, during the *pro-tempore* Brazilian presidency of **Mercosur**, in the second semester of 1996, special emphasis was given to the celebration of agreements related to competition and consumer defense. As a result, two important documents were signed in Fortaleza – Brazil (December 1996):

1. Mercosur Regulation of safeguard measures face to third countries (Decision 17/96). Its aim was to protect the industries of the regional market against an expected increase of harmful imports, originated from non-member countries. This instrument would allow Mercosur to adopt safeguard measures as a unique entity or on behalf of one of its members. It also created the Commercial Defense and Safeguards Committee to be in charge of the Decision's implementation. The Regulation will enter into force in December 31st, 1998. Meanwhile, the Member States will be able to follow their own national legislation;

2. Protocol to Defend Competition (Decision 18/96). This defines which practices are restrictive to competition and the applicable sanctions. The Trade Commission and the Competition Defense Committee are designated as enforcement agencies. A time limit until December 31, 2000 was given to all participant countries to enforce their national legislation *antidumping* in the intra-zone trade.

Steps were also taken for the development of a program to eliminate special treatment for the automotive industry, for which a common regime does not yet exist. At the Fortaleza summit, the four countries also announced the establishment of a Mercosur development bank to finance investment projects related to integration. It was also announced the creation of a Mercosur Secretariat with headquarter in Montevideo (Uruguay), which will provide administrative support to the integration process.

C) Political Dimension

Mercosur adopted, in the last two years, a new and necessary "political dimension" which was reinforced in two documents signed in San Luiz, Argentina, during the X Mercosur Council, in June 25, 1996:

1. Presidential Declaration on Democratization Commitment determining that "any turmoil in the democratic order constitutes an unacceptable obstacle to the continuity of the integration process". It foresees that " the Parts will consult each other immediately in the way they judge appropriate, in case of any rupture or threat of rupture to the democratic order".

This Declaration arose in the wake of the institutional crisis faced by Paraguay, which counted on the strong diplomatic support of its **Mercosur** partners in favor of the maintenance of the democratic values in that country. Since then, continued participation in Mercosur has implied the preservation of the political and institutional mechanisms based on the full democratic pluralism. It is worth to mention that Bolivia and Chile joined this Declaration via protocol.

2. Declaration on Political Dialogue, establishing a consultation mechanism and the political agreement among the Parts, aiming to consolidate their coordination and facilitate the international issues examination. Thus, a process was initiated which, as it occurred in the European Union, in the scope of the "political cooperation", will tend to promote an increasing approach in the position of the Mercosur countries about recent international issues.

Besides all these aspects, it is important to register, for its impact in terms of transparency in the negotiating process of Mercosur and the democratization of its decision-making system, the existence of the Socioeconomic Advisory Forum which has operated since

May 1996.

D) External Negotiations

Mercosur celebrated free trade agreements with Chile (June 6, 1996) and with Bolivia (December 17, 1996), thus establishing the basis for increasing economic and trade with those two countries.

As regards Chile, the process of negotiation for its inclusion into the agreement of the so-called "sensitive" products and exceptions was long and complex. But since October 1996, trade between Mercosur-Chile has an average tariff of 6% for most products. This tariff will be gradually reduced to zero within 8 years. Through this agreement, Mercosur countries, which are naturally oriented to the Atlantic Ocean, will have an outlet to the Pacific and in conjunction with Chile will have better access to the markets of Asian countries.

Chile is a member of APEC, a forum that links Asian Pacific countries. Likewise, Chile will have access to a consumers market of almost 200 million persons, with an estimated purchasing power of US\$1,5 billion a year.

Chile's president pointed out that Latin America "is the first priority for Chile" in its search for the enlargement of trade links. He underlined the fact that Chile has invested US\$10 billion in the subregion during the last five years.

The Chile-Mercosur agreement will stimulate international trade between the Pacific and Atlantic Oceans, foster integration projects and enhance cooperation for the creation of a free trade area in the Americas.

The agreement is of the type known as "4+1", which means that Chile joined the bloc not as a full member, but in the condition of "associate state". This is the first trade agreement of this type that Mercosur subscribed with a country.

The Chilean Minister of Finance, Eduardo Aninat, stated that the treaty with Mercosur represents a qualitative change for the diversification of the Chilean economy, due to the fact that the South American bloc is the principal client of Chilean manufactures, which constitute 40% of the exports of the country. Brazil and Argentina are the third and fourth Chile's commercial partners, respectively.

Bolivia joined **Mercosur** as the second associate member. Bolivia would function as a "bridge" between Mercosur and the Andean Community, articulating the relationship between both blocs and the trade between the two oceans. Bolivian trade with Mercosur amounted to US\$308 million, with a negative balance of US\$149.9 million, in 1995.

The Bolivian potential with Mercosur lies on the energy sector. La Paz has been exporting natural gas to Argentina for more than two decades and before the end of the century it will start exporting great quantities of this resource to Southern Brazil (as mentioned before), the biggest industrial market in the continent.

With the incorporation of Chile and Bolivia as associate members of Mercosur, the bloc has taken the first step in its plans to create a much wider integration scheme. The area of free trade that will rise from these two agreements incorporates half of the Latin America and Caribbean population and almost 60% of its GDP.

Mercosur talks with the Andean Community were also expanded as Colombia, Ecuador, Peru and Venezuela consider the possibility of joining the group. An agreement between the members of the two blocs would set the basis for a free trade area encompassing all of South America.

Mercosur and the European Union signed a Framework Agreement for Interregional Cooperation in Madrid on December 1995. The Agreement seeks progressively to liberalize trade between the two regions and is the first of this type in the world, since no other two blocs have previously pursued the creation of a free trade area broader than that already accomplished with neighboring countries.

The contents of said agreement are: advanced political co-operation from region to region with consultation mechanisms, the progressive and reciprocal liberalization of trade, and the strengthening of co-operation,

including the promotion of investments. During these first years, a joint work group will search for the harmonization of the technical norms, tariffs, and other issues of interest.

The first phase of the Agreement will last about five years, in order to provide the two blocs with time to prepare themselves for entry into free trade negotiations. A summit to discuss furthering the Inter-regional Agreement and their partnership implementation is scheduled for the next year.

Mercosur countries have attracted most European investment in the areas of telecommunications, air transport, automobile industry, tourism and finance. The infrastructure sector represents an attractive market for Europe. Today, the European Union is the main investor in the bloc, with capital stock of approximately US\$ 19.8 billion. The European Union is responsible for about 36% of the direct foreign investment in Mercosur, while approximately 70% of the total investment from the 15 European countries in Latin America is destined to the **Mercosur** members. About 75% of the development aid received by the Mercosur come from the European Union. There are projections showing that direct foreign investment in Argentina and Brazil is high, especially due to the privatization of public utilities.

Brazil is leading the push in infrastructure building projects, primarily in the expansion and modernization of its telecommunication industry.

European Union is the leading **Mercosur** partner. In 1995, 26.4% of Mercosur's total exports went to Europe, while 25.3% of its imports came from EU nations. From 1990 to 1994 EU exports from Mercosur increased by 2.6% while imports increased 13.7%.

In the case of the Mercosur-European Union negotiations, there was expressed the interest to expand the access to the agricultural market in the context of a progressive liberalization of reciprocal trade flows. During the First Meeting of the Mixed Commission Mercosur/European Union, besides the discussion on themes in the scope of the European Preferential Global System or an imminent approval of the Customs Assistance Protocol, the internal rules of the Mixed Commission and Mercosur/EU Trade Sub Commission were defined. This Sub Commission is in charge of implementing the trade dimension of the Framework Agreement.

Mercosur's external negotiations also comprised the creation of the Free Trade Area of the Americas - FTAA until the year 2005. Its landmark was the Declaration of Principles, signed by the Presidents of 34 countries of the Hemisphere in Miami, in December 1994.

The negotiations held during the last two years demonstrate that the members' position is well coordinated.

In the FTAA negotiations the concept of "building blocs" emerged. In other words, the hemispheric integration must be built from the gradual convergence of the various existing sub-regional schemes, as a way to preserve the Mercosur identity. The Mercosur countries are confident that a strong regional identity will allow the region to have greater voice than if each participant acts alone.

The original commitment of closing the negotiations until 2005 was maintained, without anticipating the time schedule agreed between the Presidents. To Brazil, the advancements of the sub-regional agreements, through the progressive association of members, are beneficial to the establishment of the free trade in the hemisphere. Thus, the rhythm of these agreements development must be preserved and not accelerated.

To reach the balanced and fair results to all the parts involved, Mercosur would move in three steps:

a) The first stage would analyze, in detail, the actions to facilitate business (1998-1999), or, in other words, the reduction of the transactions costs. Here would be included measures related to customs documentation, origin certification, goods transportation simplification, sanitary and phytosanitary certificates recognition. The results would start entering into force from 2000 on;

b) The subjects to be considered on a second stage of negotiation would include the ability to facilitate the subsequent discussion about the markets opening itself. Those are the rules and disciplines (2000-2002). It

would be the case of the harmonization of rules and technical regulations, the customs administrative procedures, the elimination of non-justified tariff restrictions. Also, the definition of mechanisms for controversial solutions within the free trade area, the harmonization of the regimes to promote and protect investments, the elimination of agricultural subsidies, among other subjects; and

c) The third and last stage would start only after the conclusion of the previous two (2003-2005). In this stage, the center of the question would be considered, i.e., the opening of the markets, including the services sector, access to the governmental purchases, investments, elimination of any last subsidy to exports, intellectual property and competitiveness politics.

It is important to notice that the methodology used for the gradual approach of the schemes of integration approved in Miami and confirmed in Denver meets the Brazilian interests in the sense that it supports a hemispheric integration without forgetting the priority attributed to the consolidation of Mercosur. More time is needed for the four countries (plus the already associate members and those which are to join the bloc) to grow within the current Mercosur framework. Besides that, a consolidation period between tough recent economic reforms and the hemispheric elimination of trade barriers will allow businesses time to adjust to a much more competitive environment.

Still with regard to FTAA, the four Mercosur members plead:

- that all decisions be adopted by consensus;
- that the rhythm and amplitude of the opening inherent to the formation of the FTAA do not represent an additional cost to the process of adaptation of the national enterprises to the new competitive environment;
- that the FTAA structure does not implicate the dilution of the regional groups already existing in the continent, such as Mercosur. It should rather be based on the mentioned sub regional agreements – the *building blocs*;
- guarantee of reciprocity in the search of market opening;
- more equality on the international competitiveness conditions in agriculture, a sector which has a special importance for the Mercosur countries;
- the necessity to have the participation of the various civil society segments, such as entrepreneurs, workers, consumers, women, academics and non-governmental organizations in the process of the FTAA formation.

Mercosur's proposal, fruit of the negotiations among its member countries is, thus, basically the following:

a. Obligations

- Free trade zone
- Consistency with the World Trade Organization – WTO
- Maximum liberalization and trade expansion through:
 1. Progressive lifting of duties starting in 2005;
 2. Clear and predictable rules of origin;
 3. Harmonization of customs procedures;
 4. Regulation on investments;

5. Introduction of new issues only if they were linked to trade and its discussion would be internationally mature.

a. Focus

- Attainment of balanced results which ensure mutual advantages and benefits;
- Mercosur, by definition a customs union, may establish, among its members, a more favorable treatment than to the countries belonging to FTAA.

a. Negotiations Format

Mercosur accepts the participation of national or sub regional delegates. Each Government decides how to represent itself. Being a customs union with international legal personality, it will negotiate as a bloc. A Directive Committee, formed by the Vice-Ministers of Commerce will guide the negotiations, being the Tripartite Committee, composed by OAS, IDB and ECLAC in charge of the Secretary. This Committee will give logistical support to the meetings and keep preparing studies as required by the Governments. Regarding the FTAA headquarters, there would be a maximum of three, being one of them in Mercosur.

The external negotiation already concluded (Chile and Bolivia) and the ones in progress (Venezuela, Colombia, Peru and Ecuador) seek the utilization of comparative advantages and the promotion of economic complementation in order to provide the efficiency and quality required, today, by the globalization process. Nevertheless, these procedures should not ignore the necessity to attract new investments and to promote technology transfer, as an additional element to improve the access of the Mercosur's competitive products.

In addition to the mentioned forums, Mercosur was present at WTO and kept contacts, in April 1996, in Auckland, with ANZCERTA delegates. During the Brazilian *pro tempore* presidency, Mercosur had contact with delegates of India (September), Japan (September, in Sao Paulo), as well as delegates of the ASEAN (WTO Ministerial Meeting, in Singapore, December) and the International Economic Community (December, Brasilia).

In order to reinforce the group's actions, the Council adopted the Decision 13/96, in Fortaleza, which " recommends that the member countries act in a coordinated manner when participating in economic-commercial international forums". Also, the Council approved the Decision 14/96, which sets up the requirements for the third countries participation in technical meetings (working subgroups), special meetings and Mercosur Ministerial Meetings.

E) Major questions of the Period

The years 1995/1996 were remarkable for Mercosur by the intense mobilization of its negotiations, due to the conjugation of many internal and external factors, which can be summarized below:

1. The "Plano Real" administration introduced new variables to the Brazilian foreign trade. So, adjustments on the system in operation among the member countries became necessary. Some examples of that were the Resolution 7/95, about the guarantee of raw materials and input supply, and the Resolution 70/96, about exceptions to the Common External Tariff.
2. Brazil settled new sectorial regimes. In fact, these were the results of the efforts specially held during the Meeting in Ouro Preto, 1994, when the country concentrated its actions on the prior project of the customs union viability. Meanwhile, Argentina gave priority to the regime of adaptation, Uruguay gave priority to certain CEP aspects survival, and Paraguay was worried about enlarging the number of exceptions to CET. In this context, it is important to emphasize the Brazilian automotive regime, by the Provisional Measure 1024, in June 1995;
3. For Brazil, Mercosur is no longer an exclusive external policy variable to become, at the same time, an internal economic policy, and

4. The Mercosur international projection, reinforced by the Brazilian economic recovery, made the Customs Union a target for criticisms from the parts not interested on the success of this experience.

Two questions, although isolated, can be considered as representative of the Mercosur controversy in the analyzed period.

The **first one**, of internal nature, is regarding investments. The only two instruments of the customs union dealing with this subject are the "Protocol of Colonia to Investments Reciprocal Promotion and Protection in Mercosur" (January 1994) and the "Protocol for Investments coming from Mercosur non-Member Countries" (August 1994). Both instruments contain minimum standards of investment protection, such as national treatment, rules on expropriation and compensations, capital transfers, etc. With regard investments promotion, the second protocol only foresees that "each Member State will promote, in its territory, those products originated in third countries and will accept them according to its own legislation and regulations". In other words, the accord does not define common parameters and remits to the national legislation the study of the theme. Besides these instruments, the only one that brings up the incentive issue, in **Mercosur**, is the Decision 10/94. The Decision settles common criteria to the incentive concession, to exports but not to investments. Therefore, there is no juridical settlement to the matter, in **Mercosur**, which leads to no argumentation in terms of violation or conflict of its rules.

At this point, it is important to analyze the actual scenario as well as the political wiliness to move forwards on this subject. One must distinguish between the investments coming from the enterprises already installed in some of the Mercosur members and those of new investors. In the first case, it is expected that any surplus in the balance trade between the two countries be destined to the purchase of assets in the country in deficit. It would be considered as a way to minimize the operational costs. That explains a great part of the Brazilian investments in Argentina, which registered, in the last years, the installation of 378 national enterprises in that country. In the second case – of the new investments, originated in countries outside Mercosur-, there is not how to deny that the macroeconomic stabilization, consequence of the "Plano Real" success, created conditions for direct capital flows toward Brazil. In fact, only in 1995 foreign investors internalized US\$9 billion. Nevertheless, Argentina, with a smaller economy than Brazil's, had a proportionally better performance, attracting more than US\$4 billion in the same period.

It remains to be considered the question of the "incentives" in order to know if there is any kind of distortion. The first element to be stressed is that, parallel to the macroeconomic stabilization process and the market opening, the Brazilian Government has made efforts to reduce the called "custo Brasil" (Brazil Cost). Without considering irrelevant aspects on the economic perspective, such as the concession of areas for industries installation, the eventual reduction of the internal fiscal structure by a Mercosur member country should not be understood as a change on the rules of the game. After all, no country consolidated its inner tributary level by signing the Treaty of Asuncion in March 26, 1991.

The question of the incentives, still unsolved at the beginning of this year, has to be submitted to the good judgement and common sense that has prevailed until now. The fundamental problems faced by Mercosur are a result of the existing deepness and diversified relationship and should be seen as natural and be maintained in the real dimension. In this sense, the Parts are engaged in reaching increasing understandings, through mechanisms that reflect the real "Mercosur dimension" when dealing with this issue (the incentives). This initiative will make the bloc even stronger.

Mercosur has recently been the subject of serious criticism. Moreover, underlying the criticism is a broader concern about the growing regionalism of the 1990s, which has witnessed the rise of NAFTA, deeper integration in Europe, the creation of APEC, the emergence of more than a dozen free trade arrangements in Latin America and the beginnings of the construction of the Free Trade Area of the Americas.

Concern has been expressed in some circles because intra-Mercosur exports have intensified significantly relative to exports to the rest of the world. In addition, some relatively simple calculations have been used to argue that intra-Mercosur exports are in sectors for which Mercosur does not have a comparative advantage.

According to this view, a "perverse" diversion of trade is developing in Mercosur which is harmful to the countries involved and the world community at large. The trade diversion is attributed to Mercosur's trade preferences and rent-seeking behavior of exporters in the area.

However, trade diversion must be examined not from the angle of Mercosur's exports, but from the angle of its imports, i.e., intra-Mercosur imports relative to imports from the rest of the world. Imports, not exports, should be examined because if preferences divert trade, their application in favor of a few selected partners should be reflected by a "crowding out" of imports from other, presumably more efficient, sources.

This was the other issue about Mercosur, which marked the period (95/96) very much - the "Yeats episode". The discussion generated by this case comprised all the economic elements in debate at that time. First of all, it raised the controversy around the possible co-existence between multilateralism and regionalism. This contributed to warm the atmosphere which preceded the economic summit occurred in December 1995, in Singapore. Second, it approached major part of the agenda regarding Mercosur being compatible to WTO, in the context of the article XXIV of GATT 94. After all, Mercosur as a whole, and Brazil in particular, have experienced, during the last years, an important process of opening, which destroyed the previous protectionist structure. The Brazilian tariff reform, ended in June 1993, lowered the average tax rate to about 14%. The growing of trade intra-Mercosur was followed by a significant increasing of the imports from third countries (to Brazil, 140% from 91-96). Besides, the allegation that the Brazilian goods exported to Mercosur are known as non competitive goods and have low quality make contrast with the fact that these same items are the most important ones in the bloc's exports to NAFTA (18% of machines and equipment's to Mercosur, 21% to NAFTA; 7,3% of steel goods to Mercosur, 13% to NAFTA). In this case, it is correct to suppose that without the imposed restrictions in some of those markets, their access would certainly be even larger!

The 'Yeats report' promoted an unexpected exposition of **Mercosur**, generating reactions of many other institutions (such as IDB and OAS) and promoted interesting debate, in which the facts and numbers were favorable to Mercosur".

By analyzing all these facts, we can affirm that the last two years were characterized by important progresses in **Mercosur** normative and some concrete results. In the first case, besides the examples mentioned before, that has to do basically with the Decisions agreed by the Council, it is worth register the renewal impetus that **Mercosur** has brought to great part of the Brazilian regulation. It is specially reflected in the agriculture and public health sectors – Mercosur has been and instrument of modernization by stimulating the debate and the revision of rules created in circumstances totally overcome today. **Mercosur** plays a fundamental role in the context of the changes already reached or the ones intended to in the Brazilian process of constitutional revision. The periods known as "crisis" (since the automotive to the textile or the nourishing goods) were alarms. Brazil never imported so much (of these and other sectors), be from third countries or from **Mercosur**. The numbers reflect great increase of imports never seen before and a dramatic reversion of the Brazilian surplus in the region. Besides all this, it is possible to conclude that the period considered here was positive, as Brazil took an increasing projection in **Mercosur** and the bloc was consolidated as customs union, becoming an important reference for the foreign investors.

There still remain, nevertheless, important tasks to be accomplished such as the definition of final regimes of the automotive and sugar sectors, the formulation of a policy for the services sector (including the financial one) and governmental purchases, the intensification of the transportation and energy connections in the region. Simultaneously, negotiations in three different external areas must be developed: 1) in LAIA, for the negotiations of free trade with the Andean Group countries and the renegotiation of the bilateral agreements with Mexico; 2) in the Americas, for the formation of the FTAA; and 3) in Europe. The **Mercosur** agenda will be, as it can be seen, full and complex.

CONCLUSION

Besides some sectoral endurance, viewed as natural in such processes, there is a consensus about the positive results of the economic integration. The integration generates more possibilities of insertion in the world market and questions such as national self-sufficiency, in some sectors, must be faced under another perspective, once

what will matter is joint production of the Member Countries and not the isolated positions of each one. From an internal point of view, the advantages for the consumer and the market will be evident, once the natural monopolistic segments in certain countries would no longer be able to impose prices without justification. The opening of the markets is, thus, coherent with the ideas of the liberalization of the economy.

For Brazil in particular the trade results reached during the so-called Mercosur "transition period" were very positive. Exports to Argentina, Uruguay and Paraguay increased from US\$ 1.3 billion in 1990 to US\$ 5.9 billion in 1994. The increase was about 350% sales to the three countries, while the total Brazilian exports in the same period expanded only 38.5%.

Besides the gains occurring from the augmentation of trade in the region, Mercosur ended up functioning in the last couple of years as a stabilizing mechanism for the two largest Southern American economies – the Brazil and the Argentina. In this case, the matter is not only the inflation control via increases in imports, but also the positive effects of the subregional tariff reduction, as a moderating element of the slow cycles and economic recession. From 1991 to 1993, in a period of low economic growth in Brazil, the Brazilian production benefited largely from the access to the Argentine market, then "warmed". This is something that explains the series of Brazilian high bilateral surplus, as well as the employment level maintenance in various Brazilian productive sectors. After 1994, the inverse occurred. The Brazilian economy gave signs of "heating up", while the economy in Argentina started a recession. Nevertheless, the huge increase of Argentine exports to Brazil has helped to change this situation.

It should be emphasized that the understanding, shared by the entire group, that the preservation and strengthening of the "Plano Real" is a common interest of the Mercosur countries, whose economies, since the signature of the Treaty of Asuncion, are becoming interconnected. In 1995, more than ever, it became clear that the construction of the Mercosur requires the strengthening the national economies and their stabilization.

Mercosur has exceeded all predictions made when the original framework was signed and is now recognized as one of the most dynamic trading blocs in the world. Many imperfections which exist in the Mercosur arrangement will have to be eliminated. But since its inception in 1991 Mercosur has been moving in the right direction. Its "open regionalism" has served as an instrument of trade creation, investment and modernization. This process has been good for the member countries, but good for the world too!

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ANNEXES

MERCOSUR MARKET SHARE IN MAIN MARKETS

(Percentage of total imports and exports from and to Mercosur regarding total trade of each country)

Markets	1991	1995	Variation 95/91

Food and animals	35,3	84,8	23,7	40,8	11,0	11,1	10,9	11,2
Beverages and tobacco	38,0	118,6	34,9	43,5	17,9	18,0	16,6	17,6
Crude materials	37,9	56,6	20,9	30,3	5,3	5,2	5,3	5,1
Fuels and lubricants	36,5	28,7	3,1	41,2	0,7	5,4	0,5	0,6
Animal and veget.oils	35,5	79,8	23,7	29,4	8,2	8,0	8,2	8,1
Chemicals	33,8	66,9	10,6	28,8	8,9	8,8	8,2	8,3
Manufactured goods	44,9	88,1	22,1	40,6	13,8	13,0	12,7	12,9
Machin. And transp.equip.	46,6	81,8	15,2	31,4	10,6	16,8	6,9	6,9
Miscellan. Manufactures	44,6	99,6	27,7	41,4	16,8	16,6	14,8	15,3
Others	28,1	74,2	30,0	21,9	7,1	7,1	7,1	7,1
Average	40,9	79,8	20,1	35,8	10,9	12,0	9,6	9,7

Source: Juan Jose Echavarria, "Tariffs, Preferences and Trade Expansion in the Mercosur "

MERCOSUR IMPORTS

Mercosur – Imports of Goods, 1990-1995 (US\$ billion and percentage)

Average Annual Growth

	1990	1991	1992	1993	1994	1995	90-95
From World	29	34	39	49	60	78	22%
From USA	6	7	9	11	14	16	23%
From EU	7	8	9	11	16	21	25%
From Mercosur	4	5	7	9	12	13	25%
From other LAC	5	5	6	7	8	11	20%
From Rest of World	8	8	8	10	10	15	15%

Source: International Monetary Fund, Direction of Trade Statistics. Yearbook 1996

MERCOSUR EXPORTS

Mercosur – Exports of Goods, 1990-1995 (US\$ billion and percentage)

Average Annual Growth

	1990	1991	1992	1993	1994	1995	90-95
To World	47	46	50	54	62	69	10%
To USA	10	9	9	10	10	11	3%
To EU	15	15	16	15	17	18	5%
To Mercosur	4	5	7	10	11	13	32%
To other LAC	4	6	6	5	7	7	17%
To Rest of World	14	13	12	14	17	20	9%

Source: International Monetary Fund, Direction of Trade Statistics. Yearbook 1996

BILATERAL TRADE FLOWS IN 1994 (US\$ million)

From/To	Argentina	Brazil	Paraguay	Uruguay	Mercosur
Argentina	-	3,595	495	650	4,740
Brazil	4,136	-	1,054	732	5,922
Paraguay	70	304	-	9	384
Uruguay	377	494	24	-	896
Mercosur	-	-	-	-	11,942

Source: LAIA

TRADE BRAZIL/ARGENTINA (US\$ million)

	Exp. Brazil	Imp. Brazil	Total	Balance	Acumululated Balance
1988	975	707	1,682	268	268

1989	710	1,239	1,949	(529)	(260)
1990	645	1,412	2,057	767	(1027)
1991	1,476	1,614	3,090	(138)	(1165)
1992	3,040	1,721	4,761	1,319	153
1993	3,659	2,629	6,288	1,030	1,183
1994	4,136	3,612	7,748	524	1,706
1995*	2,319	3,372	5,691	(1,052)	644

*January/July

Source: Banco Central do Brazil (1995)

TRADE EXTRA-MERCOSUR (US\$ million)

	Exports extra-Mercosur		Imports extra-Mercosur		Balance Extra-Mercosur	
	1990	1994	1990	1994	1990	1994
Brazil	30,092	37,637	20,018	31,094	10,074	6,543
Argentina	10,520	11,000	3,243	16,416	7,277	(5,416)

Source: LAIA

CHILE'S TRADE WITH MERCOSUR COUNTRIES: 1995

(US\$ million)

	Imports	Exports	Total Trade
Argentina	585.6	1,384.5	1,970.1
Brazil	1,056.6	1,194.6	2,251.2
Paraguay	75.9	57.9	133.8
Uruguay	56.4	39.9	96.3
Total	1,774.5	2,676.9	4,451.4

Source: Revista "Parcerias Brasil-Chile". Year I, number 1, September 1996 (issued by the Chilean Embassy in Brazil)