

# THE FUTURE OF MERCOSUR

*Samuel Pinheiro Guimarães<sup>1</sup>*

The analysis of Mercosur's situation, of its objectives and of the strategies to achieve them is of particular relevance as the twentieth anniversary of the signing of the Treaty of Asuncion, on March 26 in 1991, is celebrated at a time of extraordinary crisis and global economic and political transformation.

In 1991, neo-liberal thinking was hegemonic, in a very optimistic economic scenario. It was the New World Order, announced by President G. H. Bush, the era of globalization, of the end of borders, of the end of History and of unlimited progress for all states and individuals. It was the unipolar, peaceful and prosperous world.

Neo-liberal thinking, associated to the Washington Consensus and driven by the policies of developed countries in international negotiations and organizations and in their bilateral relations with Latin American states, would reflect, as a result of these external pressures and even for conviction of ruling elites, in domestic economical and social policies, of the four states of Mercosur.

Despite the obvious differences between the situations in which states and societies were at that time and the degree of radicalism with which they were implemented, these policies had as a main goal reducing the state to its minimum, through privatization, deregulation and openness to foreign goods and capital programs, often adopted unilaterally, without negotiations, as "voluntary contribution" to the progress of globalization.

In 1991 the international political situation was marked by the disintegration of the Soviet Union, by the end of the socialist regimes in Eastern Europe, by the discredit of socialism as a political and economic system, by the (voluntary or 'stimulated') expansion of democratic regimes, by the apparent end of regional conflicts, the 'resurrection' of the United Nations, and finally by the hegemony of the United States.

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<sup>1</sup> High General Representative of the Mercosur (austral@ufrgs.br)

In 2012 the world economy is characterized by the widening of the gap between developed and underdeveloped countries, by the expansion of globalization and of mega multinational corporations but, on the other hand, it goes through its deepest crisis since 1929, which resulted in from a tendency to overproduction, to the excessive extension of credit, and finally from a huge speculative movement, triggered by banks, investment funds, brokers and auditors, allowed by globalization and profound deregulation profound of national and international financial systems. The crisis erupted in the United States and spread out to the financial systems of other developed countries, while the capacity to maintain some positive growth of the global economy was indistinctively assigned to the emerging countries., without distinction, the ability to maintain some positive growth in the global economy. While the developed Western countries are plunged into their crises, which already affect European unity, China emerges as the second largest economic power in the world.

In 2012, the international political- military landscape is characterized by the unwinding of wars in Islamic countries, with the expansion of NATO powers far beyond its their area of competence; by the fight against an enemy diffuse enemy, terrorism; by, the unforeseen outbreak, unforeseen, of popular movements against Arab dictatorships have which were traditionally supported, and sometimes even financed by the Western powers; by the intervention of Western powers, under the pretext of humanitarian issues, in the internal affairs of weaker states; by the resurgence of xenophobia and racism, especially in Europe, with reflections on South-American immigrants; by the increasing sophistication and automation of the military forces of major powers and by their efforts to disarm, even in conventional terms, the weaker and already disarmed states.

This political-military scenery scenario is being increasingly being transformed by the geographic expansion of the political presence, and, in the future, military's Chinese presence, from its growing economic influence, as largest economy, largest exporting and importing power, second largest international investment destination, largest holder of foreign reserves and largest investor in U.S. Treasury bonds and its growing scientific and technological capacity. Despite all the difficulties and challenges, Chinese economical and political trajectory tends to suffer no radical changes due to the characteristics of its collegiate political system and to the gradual rise of the Communist Party members to positions of high responsibility in the Political Bureau of the Central Committee.

The emergence of China as the largest economic power in the world, and possibly soon, the second most powerful political and military one, have

extraordinary consequences to South America, but particularly so for the member states of Mercosur.

Especially for Mercosur, as certain South American governments have made the decision of great importance to their countries and to South America's political and economic future to initially insert themselves into the US economic system, by signing broad economic agreements, improperly called 'free trade agreements', and then to the world economy, through the negotiation of actual free trade agreements with the European Union and many other countries, including China.

Those South American countries have chosen a policy of unrestricted inclusion in the global economy and given up the possibility of using various instruments to promote development, particularly important in the case of developing countries with significant populations, with a high degree of urbanization and with large social and economic disparities. And, therefore, abdicated a more intense participation in a South American process of regional integration for the impossibility to participate in a regional customs union and in regional industrial policies that allow the strengthening of productive companies in their territories. Thus, the rhetoric that is present in all academic and political meetings on the aspiration, the possibility and the benefits of a future South American integration should be seen in the light of this current reality.

The impact of China on the economy of Mercosur countries, which is already large, will become extraordinary.

Chinese economy has been growing at an average rate of 10% per year over the past thirty years, challenging the expert's recurring negative forecasts. Its modern economy is made up of 300 million individuals, with a growing deficit of food for a population that improves and diversifies its eating habits, not enough arable land and water for irrigation on a large scale (although there is the possibility of desalination of seawater and development of appropriate agricultural technologies to their inhospitable regions), with a voracious demand and a significant minerals deficit and with a growing energy deficit, despite the ambitious expansion programs of its electro-nuclear and wind systems. The gradual incorporation of over one billion Chinese people, today in rural regions and dedicating to low-productivity activities, to the modern sector of the economy will make China the world's largest market, superior to the American and European markets combined.

Although China's demand for minerals, food and energy can be supplied by other regions, especially Africa, South America and the Mercosur countries are under

special conditions to meet that demand, as indeed has been doing with its soybeans and iron ore exports of soybeans and iron ore, among other products.

Chinese demand for minerals, oil and agricultural products contributes significantly, to the increase in world prices of those products, to an inflationary impulse in all countries, tofor the generation of large foreign currencyexchange earnings in the Mercosur countries, and the resulting appreciation of their national currencies, simultaneously affected by the simultaneous influx of excess of money offered by the United States, through its policy of ‘monetary easing’.On the other hand, China, which initially was a huge platform for production and export of mega multinational corporations, started, through its commercial, industrial and technology transfer policies, to create and develop its Chinese capital companies, able to participate in the world market in various sectors, with products varying from the most simple to the most complex, with highly competitive production costs and export prices.Thus, China’s own situation and its development strategy will profoundly affect in the deepest way affect the development prospects of each Mercosur country, their commercial, industrial and technology policies, guided by WTO rules, negotiated and adopted in a different international context will be put into question, and the very future of Mercosur as an economic development, productive transformation and social development regional sheme.

On the one hand, Chinese demand for commodities and on the other hand, its supply of industrial products at low prices in the face of the orthodox economic policy orthodoxy of certain countries (focusing on an excessive concern with fighting inflation and maintaining fiscal balance) its low technological dynamism may lead, if firm and permanent industrial policies of adding value to primary products with strong demand are not formulated and implemented, to a specialization in primary production export and to the Chinese conquest of industrial product markets of Mercosur’s partners and all the other countries in South America.

This situation would tend to aggravate with the overcoming of the economic crisis in the highly industrialized countries, which caused a temporary reduction of its demand for primary goods. With the resumption of its industrial growth and income, those countries will exert an even stronger additional pressure on the bigger commodity markets, both agricultural and mineral, with high possibility of deepening the process of regressive specialization process of countries in South America and especially Mercosur, which includes the two largest industrial economies in the region.

In societies increasingly urbanized societies with populations and expressive populations, under the permanent impact of aggressive advertising to stimulate consumption, this regressive specialization would lead to an insufficient supply of industrial jobs in these societies insufficient to meet the growing demand resulting from population growth and the need to absorb underemployed and disqualified stocks of labor. The social effects of insufficient generation of urban jobs would be extremely serious.

This scenario wouldll profoundly affect the prospects and possibilities for of deeper integration between the states of Mercosur states to the extent that this integration depends on the growing ties between their economies (and consequent political linksattachment) which what is only possible through the exchange of industrial products as for, in the agricultural sector, in addition to the lower range of typical products which is characteristic of this sector, the productions of the four countries are largely competitors. Their economies would gradually or even rapidly become increasingly isolated from one another and the process of deeper integration would be definitely shaken and reduced to cooperation efforts in important sectors, yet limited.

### **The challenge of asymmetries**

The asymmetries between the member states of Mercosur, which are remarkable in territory and population, being the first aspect unchangeable and the second one slowly transforming, but which have nevertheless great economic importance, have been growing rapidly in terms of degree of productive diversification, technological dynamism and size of their productive parks.

The dynamics of these asymmetries, left at the mercy of market forces in a customs union and in a free trade area, in the absence of corrective schemes, lead to an increasingly different degree of development and therefore the friction, the frustrations and the permanent threats to the cohesion of Mercosur, with all the consequences to the capacity of the larger states but especially the smaller ones, of defending and promoting their interests in an increasingly characterized, despite the crisis, by the expansion of large regional arrangements in the Americas, Europe and Asia international environment.

Reducing disparities is essential so that the economies and societies can benefit equally from the integration process. The asymmetries that, in concrete terms, correspond to large physical and social infrastructure, workforce training and

companies' size differences, do not allow private investments to be distributed in a more harmonious manner within the common area, and allow the generation and the quality of jobs to be uneven and, therefore, the income generation and welfare in different societies to be inequitable.

Other integration schemes, such as the European Union, from their origins in 1958, were concerned with the existence and the effects of different levels of development among the participant states and with the need to promote a more accelerated development in the most backward countries to make opportunities more balanced within the common economic space. They resorted to various programs, primarily for the transfer of resources in order to level the economy of the states that were joining the European Union and which were at different stages of development. The process of reunification of the two Germanys was and is an example of great transfer of resources that reached up to trillions of dollars with the goal of leveling two economies and societies that integrate.

Due to the neoliberal doctrine and its implicit objectives that guided the creation of Mercosur, it was initially thought and said that the asymmetrical dimensions of the states would not affect the development of each one of them and that simple automatic commercial integration, without appropriately taking these asymmetries into account, would allow each of them to benefit equally or in similar way of the integration process.

Twenty years after the Treaty of Asuncion there is a widespread acceptance of all the governments of the importance and consequences of all kinds of asymmetries between the states and of the need to face them with effective programs, whose amount of so far allocated resources are absolutely insufficient to the dimension of the task.

Some simple statements can be made about the possibility of success in addressing the challenge of reducing asymmetries, essential for the cohesion and economic and political future of the Mercosur:

a. without the generous understanding (and, incidentally, of the economic and political interest) of the larger states, which should be reflected in their financial contributions to various programs, especially for FOCEM (Fund for Structural Convergence of Mercosur) the importance of asymmetries can keep on being emphasized but they will not be reduced;

b. without building energy and transport infrastructure in the smaller states asymmetries will not be reduced and;

c. no program or community policy in any of the several areas of integration will move forward without the creation of asymmetric funding financial instruments to those programs and policies.

### **The geographical expansion of Mercosur**

In an international scenario characterized by the expansion of large strengthened country blocs, despite the euro crisis, Mercosur's capacity to defend and promote the interests of its member states depends on its economic and political empowerment.

From the economic and social perspective the strengthening of Mercosur will result of the productive development of each of the four national economies, of their physical and commercial integration, of the significant reduction in disparities in each one of the societies, of their technological dynamism, of the reduction of external vulnerabilities of each of its members.

From the political perspective, the strengthening of Mercosur as a bloc depends on an ever-closer coordination of its members and on the number of sovereign states that compose it, states that, for that reason, are interested in coordinating their actions as members of a bloc in international negotiations and *fora* and in the face of crises and third states' initiatives, especially those of more powerful states.

Mercosur's geographic expansion means the adhesion of new members. Because of decisions they have made in the past, there are states that cannot integrate Mercosur. Those states have signed free trade agreements with other states or blocs, such as the EU, and, therefore, apply zero tariff to imports from those states or blocs and, thus, could not adopt and apply Mercosur's common external tariff.

Mercosur's geographic expansion began with Venezuela's adhesion process. The full participation of Venezuela in Mercosur is of great political and economical importance, given the country's wealth in mineral and energy resources and its decision to develop its industrial economy. Its entry now depends only on the

Paraguayan Senate's decision, having already been approved by Argentina, Brazil, Uruguay and Venezuela.

Apart from Venezuela, Bolivia, Ecuador, Suriname and Guyana could, in principle, join the Mercosur. The possibility of entry of extra-regional states, that is to say, countries from outside South America in the Mercosur is reduced.

It is in the best interests of the member states of Mercosur to create the best possible conditions to the possible entry of Bolivia, Ecuador, Suriname and Guyana as full members in Mercosur and to strengthen relations with all other South American countries, that, by the way, already are associate states, so that in future if they wish to join the Mercosur, this entry will be easier and more effective politically and economically.

### **Mercosur as a mechanism for regional development**

At the time of the creation of Mercosur, the governments of Presidents Menem, Collor, Rodrigues and Lacalle had the conviction that the implementation of the policies advocated by the Washington Consensus, i.e., deregulation, privatization, openness to foreign capital and removal of trade barriers, would be sufficient to promote economic and social development.

Mercosur was created in 1991 to be a trade liberalization project, as a step in a 'virtuous' process of elimination of trade barriers and full insertion into the international economy, and not to be an organization for the promotion of economic development of the States individually or as a bloc.

The implementation of the Treaty of Asuncion, by failing to adequately consider the differences between countries and the economic and political impact of economic dislocations caused by the reduction of tariffs, led to all sorts of 'provisional' schemes, such as the automotive agreement and the exceptions to the common external tariff, periodically renewed, for capital and information technology goods, and the agreements, often informal, of trade organization in certain business sectors.

The transformation of Mercosur from a customs union and free trade area to an imperfect scheme of balanced and harmonious regional development of the four states, which means the elimination of asymmetries and the gradual construction of 'common' legislation would require:



- a) the forceful recognition of the asymmetries, whose reality would be verifiable by the constitution of asymmetrical common funds, with adequate resources in every area of integration to finance projects, including that of gradual legislation harmonization;
- b) the assurance of conditions to allow industrial development promotion policies in each state;
- c) the signing of agreements in relevant industrial sectors, similar to the automotive agreement;
- d) the creation of mechanisms that prevent national ‘markets disruption’ and at the same time avoid trade diversion in favor of non-member countries of Mercosur;
- e) the access of national capital enterprises, located in the four states, to national financing organs of any of the four Mercosur states;
- f) the four states legislation harmonization in all areas of integration.

The international economic crisis, the development strategy and policies implemented by China, the programs implemented by industrialized countries to tackle the crisis and the real actual ‘suspension’ of the rules included in the various WTO agreements ‘negotiated’ at the time of the hegemony of neo-liberal thinking create a favorable environment to the adoption of this list of measures.

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**ABSTRACT**

This work analyzes the situation of Mercosur, of its objectives and of the strategies to achieve them in the context of the celebration of twenty years of the signing, on March 26, 1991, of the Treaty of Asuncion and also of a full-blown crisis and of profound global political and economical transformation.

**KEYWORDS**

Mercosur; International Economic Crisis, Political Change.