

MERCOSUR - Advantages and Disadvantages from the Brazilian Perspective

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I . Introduction

MERCOSUR is one of the successful multilateral trade agreements in the world. Four countries in South America -Brazil, Argentina, Uruguay and Paraguay- joined together to create the Common Market of South America (Mercado Comun del Sur, or MERCOSUR) in March 1991, the most ambitious attempt yet toward regional integration in Latin America (Manzetti 2000, 186).

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From the perspective of regional integration, MERCOSUR has been very important, especially, because there are many differences among the joined countries. Brazil is a huge market, compared with Uruguay and Paraguay, even with Argentina, and countries like Uruguay and Paraguay can take advantage of achieving this huge market. On the other hand, Brazil can sell industrial products to these countries with certain advantages.

But, from the perspective of a single country, like Brazil, the common market can be a constraint to develop other kinds of bilateral agreements worldwide. For example, if Brazil is interested in a bilateral trade negotiation with South Korea, Brazil is not allowed to do so. Brazil must negotiate within the bloc MERCOSUR, and MERCOSUR as a bloc will negotiate with South Korea. In this case, all countries of the MERCOSUR must agree on details of this negotiation.

Thus, a country to be included in a regional bloc, in a sense, is a double-edged sword. On the one hand, a country has the advantage of the agreements inside the bloc. On the other hand, a country cannot make any bilateral agreement with other countries.

This essay is an attempt to study MERCOSUR as a regional trade bloc, particularly from the Brazilian perspective. To accomplish this propose, an overview on multilateral trade agreements will be taken in the next chapter. After that, MERCOSUR will be examined from its historical perspective, rules and functioning to its outcomes and results. The final point of this essay will be the results and perspectives from the Brazilian side and the methodology used here is a case study, based on up-to-date bibliographic and data-base research.

II. Multilateral Trade Agreements Overview

Currently, there are some different perspectives to analyze Free Trade Agreement. On the one hand, there are some good examples of regional

FTAs, such as NAFTA and MERCOSUR. On the other hand, there are some examples of bilateral FTAs, such as Korea-Chile. Is it possible to say that a bilateral trade agreement is better than a regional FTA, or vice-versa?

According to Franko (2007), “the theoretical underpinning of free trade is the theory of comparative advantage, which states that countries should trade those goods that they can most efficiently produce to maximize global output.” (Franko 2007, 278). Each country should produce a kind of products in which they have more productivity. In certain senses, it means that each country needs to find its vocation on production to become a partner in an agreement of free trade.

To review the concept of a comparative advantage, it is important to go back to David Ricardo who was the founder of this theory.

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by regarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labor most effectively and most economically (Ricardo 2006, 93).

Ricardo discussed the comparative cost of production in different countries, regarding their capacity to produce them at a low cost. In other words it is the concept of opportunity cost. “The opportunity cost of some items is what we give up to get that item.” (Mankiw 2009, 54). It is used to compare two producers. “The producer who gives up less of other goods to produce Good X has the smaller opportunity cost of producing Good X is said to have a comparative advantage in producing it.” (Mankiw 2009, 55).

The regime of trade agreement is relatively short, and it only began in 1950s. At that time, “trade negotiations led by the advanced industrial countries under the auspices of GATT, the General Agreement on

Tariffs and Trade, greatly reduced tariffs on manufactured goods and created the foundations of the modern trade regime. The GATT system was built on the principle of nondiscrimination: countries would not discriminate against other members of GATT.” (Stiglitz 2006, 75).

The Uruguay round in 1986 ended with an agreement signed in Marrakech on April 15th, 1994. “Under this agreement, GATT, which had 128 countries, was replaced by the World Trade Organization, which today has 149 countries.” (Stiglitz 2006, 75). Nowadays, WTO is the worldwide organization which has the responsibility to manage, control and judge cases from claiming countries.

According to Stiglitz, the bilateral strategy has largely failed, and “bilateral trade agreements should be strongly discouraged.” (Stiglitz 2006, 97). A free trade agreement can work to open protected markets, creating new sales opportunities, and have proliferated around the world, accounting for 84 percent of trade agreements. Among 170 trade agreements worldwide, 39 involved with countries in the western hemisphere as of 2005. “Chile provides an interesting example of trade liberalization. From an average tariff level of 105 percent at the time of the military coup in 1973, Chile unilaterally implemented a 10 percent tariff rate within four years of the start of the Pinochet government.” (Franko 2007, 245). Now this tariff is 6%. Chile made this project in five stages from 1974 to 1991 when the last stage started. From 1991, “Chile began its turn to preferential trading agreements to complement its unilateral liberalization.” (Idem, 246). In 2008, the goal of Chilean government was to enter into 60 bilateral FTAs. In September 2008, this number was 54. This record number of bilateral FTAs shows that this strategy is in the correct way. Otherwise, the Chilean government would not put so much energy on its consecution. One of the visible results is that the Chilean wine is selling that much throughout the world.

The globalization brought another way of thinking concerning trade and regional integration. It is possible to say that regional integration is currently a major tendency because of the high level of competition in

the worldwide market. There are different kinds of regional integration. “Regional integration may assume different forms depending on the penchant for forfeiting national sovereignty in search of synergies and economies of scale in unification.” (Franko 2007, 255). To the World Trade Organization, regional integration of trade is classified as Regional Trade Agreement (RTA). There are four broad categories of trade integration: a free trade area (FTA), a customs union, a common market, and an economic union.

<Table 1> Categories of Trade Integration

Categories	Mutual Tariff	CET Common External Tariff	Free Movement of Factors	Policy Interaction/ Single currency
Free trade area	yes	no	no	no
Customs Union	yes	yes	no	no
Common Market	yes	yes	yes	no
Economic Union	yes	yes	yes	yes

Source: Elaborated by the author from Franko (2007) and from Kim (2009a)

There exist some differences among these categories of trade integration.

Economists define free trade as an open, multilateral system in which countries do not define preferences for partners but simply buy the cheapest goods available in the global market. A customs union takes preferential arrangements a step further, establishing a common external tariff for the group, and a common market advances cooperation in other policy-making measures, such as agriculture and the social sector. Full economic integration, including a common monetary policy and a common currency, is an economic union (Franko 2007, 255).

Why do countries pursue trade integration? There are some points to be made clear this question: a) trade integration may create special opportunities to take advantage of economy of scale, allowing to export to a unrestricted market and to have opportunities to import products in better conditions than before; b) This kind of arrangement may harmonize the regulation in determined area, reducing emerging conflicts; c) A free trade agreement can work to open protected markets, creating new opportunities for sales.

In addition to these advantages mentioned above, there is one important point to consider regarding regional integration, which is the innovation diffusion spill over into integrated countries. "Innovation is an interactive process, with feedback from users and early adopters. At the core of the current innovation process is collective entrepreneurship, in which several agents interact and work together to introduce change." (Christensen and Lundvall 2004; *apud* Lundvall 2008, 204). According to World Trade Organization (2008), innovation can affect economic growth:

A different avenue through which trade can affect economic growth is by reinforcing or dampening incentives for firms to innovate. There are several mechanisms at work. First, trade liberalization increases the size of the market (scale effect). Second, to the extent that knowledge travels with the exchange of commodities and inputs, trade liberalization enlarges the scope of knowledge spillovers. Third, an increase in the degree of openness of an economy will typically enhance product market competition (competition effect). Fourth, decreasing trade barriers affect the distribution of production in different areas of the world (international product cycle). Last, trade liberalization may have an influence on institutions and government policies that shape economic incentives of firms. All these mechanisms affect economic growth through their effect on technical change (WTO 2008, 68).

It is important to mention that the process to achieve a multilateral agreement is not an easy task. It takes a long time and several rounds of negotiation because there are too many interests in the game.

Multilateral trade liberalization is by its very nature a gradual process and in this respect leaves room for adjustment processes to take place smoothly. Many WTO agreements contain more or less explicit provisions that aim to facilitate their adoption. In particular, they often specify phased-in implementation periods, with developing and least-developed countries usually being granted longer implementation periods than industrialized countries (WTO 2008, 155).

Considering the viewpoint of developing countries, which are, in general, raw material sellers, regional integration can be a good opportunity to develop their manufacture industry only if their government had planned their own long-term development strategy. But, on the other hand, developing countries must to be prepared -investing in education, in their own National System of Innovation- to take this advantage to achieve technological change because, otherwise, they will remain as a raw material supplier to developed world.

Another stage of regionalism is the process of inter-regional cooperation that can be, for instance, Latin-America and Asia. Why Asia? Asian economy is very dynamic and the main economies -China, Japan, Korea and Taiwan- are raw material buyers as supply for their industry. Those countries could improve their relations with Latin America to a high level, which means to invest in LA countries to make their final products there.

Latin American motivations for participation in APEC have been, first, to become part of a cooperation network that includes some of the most dynamic economies, corresponding to a strategy of diversifying their foreign economic policies in order to enlarge trade and investment links. Second, Latin American economies have expected indirect benefits, by opening new channels of interaction across the Pacific (Wilhelmy and Mann 2005, 29).

Certainly, this high level of integration is a big challenge as there are certain limitations, for example, geographical distance and cultural barriers. But the globalization brought some shortcuts, especially, in communications, through a tool like internet. Another key point is that “trade agreement, in addition to bringing cooperation between countries, reduces (or eliminates) governments’ discretionary power in setting tariffs and returning to unilateral trade protectionism. In this way, an agreement improves the bargaining power of each government in relation to domestic special interests and allows the policy-maker to resist pressures from particular sectors to deviate from a liberal trade policy.” (Staiger and Tabellini 1999; TANG and WEI 2008; *apud* WTO, 2009a, 24).

This essay will focus on MERCOSUR, a regional common market in South America, to be discussed in the following sections.

III. MERCOSUR Overview

II.1. MERCOSUR Historical Perspective

MERCOSUR (Mercado Comun del Sur) is a common market (Fig.1) in South America, formed by Argentina, Brazil, Paraguay and Uruguay. It was founded in March 1991 with the ambitious objective to integrate these countries economically.

From the historical perspective, MERCOSUR was not the first attempt to organize a regional integration in Latin America. “As early as 1960, the region launched the Latin American Free Trade Association (LAFTA) under an ambitious program.” (Manzetti 2000, 186). However, it failed to congregate and LAFTA saw the demise before the end of the decade. In 1970s, the focus was less ambitious and shifted toward modest efforts at the sub-regional level, such as the Central American Common Market (CACM) and the Andean Pact. “However, following a

period of early success, both had fallen into obscurity by the early 1980s, when the initial goals of liberalizing trade and coordinating macroeconomic policies became first delayed, then implemented only half-heartedly, and eventually postponed indefinitely.” (Manzetti 2000, 186).

All of these attempts were the starting point for the next step of the regional integration in Latin America. In 1986, Brazil and Argentina put aside their rivalry to enter into a cooperative relationship, termed the Argentine-Brazilian Economic Integration Program (ABEIP), a formal program for economic and political cooperation. The main goal of ABEIP was to expand bilateral trade between both countries in products, such as capital goods, agribusiness and the automotive sector. It is important to remark that 1986 was the year of first indirect presidential election by the Parliament after 22 years of military dictatorship. Tancredo Neves and his Vice President Jose Sarney were elected. Tancredo Neves was under a disease treatment and died after some months, and his Vice President Sarney took office.

After 1986, Brazil found itself in a deep economic crisis, with high inflation and high rate of unemployment. Several economic plans were carried out, such as Cruzado Plan, Bresser Plan, Summer Plan, without any positive effect in overcoming economic crises. In 1989, the first direct presidential election put face to face two new candidates in the Brazilian political scenario: the young Fernando Collor de Mello and the metallurgic Luiz Inacio Lula da Silva. The inflation at the end of Sarney government soared around 83% per month. Fernando Collor won and took office in January 1990. His first act was the Collor Plan, which blocks all the money that the population had in bank accounts one day. It was a big shock and Collor said that he had only one chance to shoot the tiger (inflation). That was why he took all the money of Brazilian people.

In the same year of 1990, Collor signed with President Menem of Argentina the Buenos Aires Act, which called for establishing a common market by the end of 1994. A month later, Uruguay and

Paraguay joined the proposed integration scheme. Chile was invited as well, but declined to participate. Finally, “on 26 March 1991, the foreign ministers of Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asuncion, which called for the creation of the Mercado Comun del Sur (MERCOSUR) or South America Common Market.” (Manzetti 2000, 187).

Main points of the Treaty of Asuncion were:

1. “An across-the-board tariff reduction would replace the sector-by-sector approach used by the ABEIP;
2. The coordination of macroeconomic policies in accordance with the tariffs reduction schedule and the elimination of non-quantitative restrictions;
3. The establishment of a common external tariff for trade partners outside MERCOSUR, with the objective of increasing the competitiveness of the member countries;
4. The development of accords for specific sectors of the economy in order to optimize the use and mobility of production factors and achieve efficient economies of scale;
5. The implementation of an institutional framework to solve trade litigation.” (Manzetti 2000, 187).

Still according to Manzetti (2000), the motivations for this agreement were: a) political/security concerns; b) expectation of gains from liberalizing international trade; and c) expectation of gains from regionalizing production and the international transfer of capital and technology.

In 1994, the Ouro Preto Protocol put an end in the transition period of MERCOSUR and established its formal structure as an international organization. At the same time, most of the main functioning rules and fundamentals were defined and MERCOSUR became, in fact, a common market.

Chile was initially invited to join MERCOSUR, but declined because it has a CET (Common External Tariff) much lower than the MERCOSUR countries. At the same time, Chile maintains its own international trade strategy which consists in setting as many bilateral free trade agreements as possible worldwide. “Although in 1996 Chile signed a bilateral agreement with the union as an associate member. Bolivia, Colombia, Ecuador and Peru are also associates, with preferential duty treatment for their products.” (Franko 2007, 261).

III.2. MERCOSUR Rules and Functioning

According to Franko (2007), MERCOSUR is governed by six institutions. Its Council, a political leadership group, is composed of the ministers of foreign relations and economics of the four member states, with a decision-making authority over member state institutions. The Common Market Group, or the executive organization of the community, has both policy-making and administrative responsibilities. The MERCOSUR Commerce Commission is divided into eleven working groups in charge of monitoring the common commercial policy, including the CET and competition policy. The joint Parliamentary Commission is an advisory commission, representing each national legislature. The Forum, a consultative body, reflects the views of various sectors such as producers, consumers, workers, and merchants. Finally, a small secretariat with a permanent staff of about thirty professionals is headquartered in Montevideo, Uruguay.

Therefore, it is important to mention that in recent years on trade negotiation appears to have some differences of commercial priority. “Thus, distinct maps of thematic priorities began to draw in the Region that manifested not only the differences between the Regional level and the National level, but also, the existed differences among the industrial sectors and also among those priorities of certain sectors that begin to

insist in the necessity to have an large participation of the politics and social actors on that process.” (Bizzozero 2008, 87).

MERCOSUR, in its essence, has an economic imbalance because it consists of a huge and strong country like Brazil, a medium-sized economy like Argentina and two small countries, Paraguay and Uruguay. To reduce the impact of the size, the FOCEM (Fondo para la Convergencia Estructural del MERCOSUR) was created to finance programs to promote the structural convergence, develop the competitiveness and promote the social cohesion, particularly, in small economies. The total amount of this fund is USD 100 millions, with the following percentage of contribution: Argentina 27%, Brazil 70%, Paraguay 1% and Uruguay 2%. But, the distribution of this resource is in the opposite direction: Paraguay 48%, Uruguay 32%, Argentina 10% and Brazil 10%. FOCEM includes four programs: 1) program of structural convergence; 2) program of social cohesion; 3) program of competitiveness development; 4) program of institutional structure and integration process.

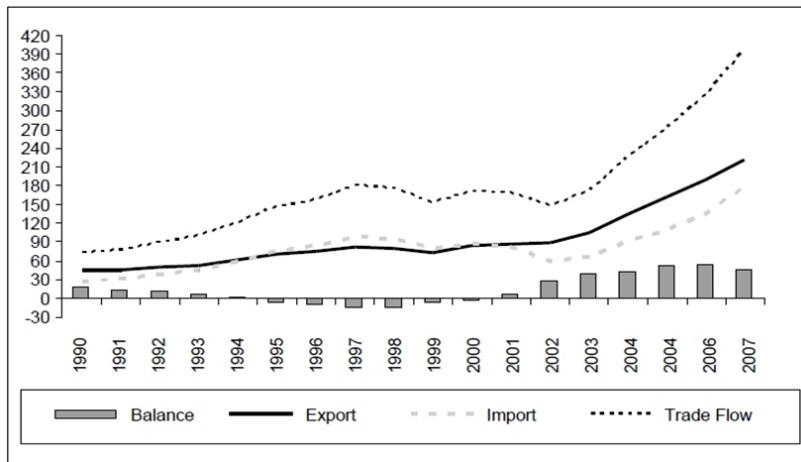
Recently, in 2008, the MERCOSUR Credit Fund was created to help small and medium enterprises to access banking credit, with the initial amount of USD 100 millions, and with the same percentage of contribution as that of FOCEM.

III.3. Outcome and Results of MERCOSUR

According to Franko (2007), “the gains or losses from economic integration may be assessed in light of the existing distance from a free trade ideal.” (Franko 2007, 256). In case of MERCOSUR, it is not easy to clarify which country is getting more advantage from the regional integration, because there is asymmetry among the participating countries, for example, the market size, GDP size and the stage of industrialization of each country. “By itself, Brazil accounts for 75% of the total MERCOSUR gross domestic product and for 80% of its industrial manufactures (Manzetti 2000, 191).

As a result, analysts from the countries with smaller economies - Argentina, Paraguay and Uruguay- have argued that Brazil is bound to garner most of the benefits from MERCOSUR, since it enjoys an economy of scale whose potential is far beyond the capacity of its partners to match. [...] Those who argued that Brazil will end up reaping most of the MERCOSUR benefits point to the fact that Brazilian companies have been the most active in every area: not just in selling to the markets of their partners, but also setting up intermediate processing plants in Argentina and participating in joint ventures with third-country firms to establish processing plants in Argentina, Paraguay and Uruguay. While it could be argued that specialization responds to the criterion of comparative advantage, it is also true that it could undermine the industrial conversion now underway in Argentina, Paraguay and Uruguay (Manzetti 2000, 191).

But, to have a real dimension, it is necessary to have an overview on trade balance of MERCOSUR as a whole and the results of each participating country.



Note: ^{a/} Includes intrabloc trade

Source: MERCOSUR Report (2009), No. 13, 26

<Graph 1> Total MERCOSUR Foreign Trade

During the last ten years, MERCOSUR's trade balance has been through three separate phases. The first, from 1998 to 2002, was characterized by serious macroeconomic instability in all countries in the bloc, added to a highly convulse international atmosphere. [...] MERCOSUR thus saw virtual stagnation of exports and shrinkage of imports, which meant the trade balance, went from a deficit of around USD 14 billion in 1998 to a surplus of USD 29.2 billion in 2002. The second phase, from 2003 to 2006, was characterized by extremely positive scenarios, both in the international market and on the internal front, and, once again, MERCOSUR countries showed sustained growth. Exports increased sufficiently fast to deal with the expansion of imports. This in turn enabled the bloc's trade surplus continued to rise until it reached a record USD 55.5 billion in 2006. The most recent phase, taking in 2007 and the first half of 2008, was characterized by the sustained high pace of growth in internal demand in the bloc and by a still favorable international scenario, especially where the increases in international commodity prices was concerned, which far exceeded their historical average. However, the grade surplus still fell in 2007 and again in the first half of 2008, 45.4% down on the same period for 2007, a reduction of USD 11.1 billion (MERCOSUR Report 2009, No. 13, 25-26).

In <graph 1>, it is possible to see the increase of total trade flow from 1990 until 2007, the total trade of MERCOSUR. The exportation is in a superior amount, compared with importation, showing that MERCOSUR is achieving a strong position in the global market.

The common market of South America began in 1991 and was finally agreed in 1994. From this period until 2007, the total trade inside participating countries and outside grew significantly and consistently as it is shown in <Table 2> and <Table 3>.

<Table 2> Total MERCOSUR Trade Flows at Selected Times

(US\$ Millions)

	1998	2002	2006	2007	% Var. 2007/2006	2007 ^{a/}	2008 ^{a/}	% Var.
<i>Exports</i>	81,336	88,901	190,268	224,178	17.8	101,251	129,119	27.5
Argentina	26,434	25,651	46,569	56,246	20.8	24,751	33,237	34.3
Brazil	51,120	60,439	137,808	160,649	16.6	73,214	90,645	23.8
Paraguay	1,014	951	1,906	2,785	46.1	1,227	2,278	85.7
Uruguay	2,769	1,861	3,985	4,498	12.9	2,060	2,959	43.6
<i>Imports</i>	95,375	59,705	134,757	176,567	31.0	76,789	115,755	50.7
Argentina	31,379	8,988	34,150	44,781	31.1	19,346	28,113	45.3
Brazil	57,714	47,243	91,343	120,621	32.1	52,637	79,310	50.7
Paraguay	2,471	1,510	4,489	5,577	24.2	2,454	3,802	54.9
Uruguay	3,811	1,964	4,775	5,588	17.0	2,352	4,530	92.6
<i>Trade Balance</i>	(14,039)	29,195	55,511	47,611	(14.2)	24,462	13,364	(45.4)
Argentina	(4,946)	16,662	12,419	11,465	(7.7)	5,405	5,124	(5.2)
Brazil	(6,595)	13,196	46,465	40,028	(13.9)	20,577	11,335	(44.9)
Paraguay	(1,457)	(560)	(2,583)	(2,792)	8.1	(1,228)	(1,524)	24.1
Uruguay	(1,042)	(103)	(790)	(1,090)	38.0	(292)	(1,571)	438.0

Note: ^{a/} First Half

Source: MERCOSUR Report (2009), No. 13, 28

<Table 3> MERCOSUR Intrazone and Extrazone Trade Flows at Selected Times

(US\$ Billions)

	1998	2002	2006	2007	% Var. 2007/2006	2007 ^{a/}	2008 ^{a/}	% Var.
<i>Intrazone</i>								
Exports ^{b/}	20.4	10.2	25.8	32.4	25.7	14.3	19.8	39.0
<i>Extrazone</i>								
Exports	61.0	78.7	164.5	191.8	16.6	87.0	109.3	25.6
Imports	75.0	49.4	109.4	144.0	31.6	62.4	95.6	53.2
<i>Total</i>								
Exports	81.3	88.9	190.3	224.2	17.8	101.3	129.1	27.5
Imports	95.4	59.7	134.8	176.6	31.0	76.8	115.8	50.7
Balance	(14.0)	29.2	55.5	47.6	(14.2)	24.5	13.4	(45.4)

Note: ^{a/} First Half, ^{b/} By definition, equal to Intrazone Imports

Source: MERCOSUR Report (2009), No. 13, 29

Compared with the intrazone MERCOSUR trade, it shows the same tendency logically as it is seen in <Table 4>.

<Table 4> Intrazone Trade Flows in MERCOSUR by Country at Selected Times
(US\$ Millions)

	1998	2002	2006	2007	% Var. 2007/2006	2007 ^a	2008 ^a	% Var.
<i>Exports^b</i>	20,355	10,189	25,785	32,401	25.7	14,259	19,814	39.0
Argentina	9,415	5,718	9,940	12,426	25.0	5,527	7,421	34.3
Brazil	8,877	3,311	13,986	17,354	24.1	7,596	10,459	37.7
Paraguay	531	553	917	1,374	49.9	608	1,164	91.4
Uruguay	1,532	607	942	1,247	32.4	528	770	45.8
<i>Imports^b</i>	20,393	10,300	25,394	32,602	28.4	14,348	20,125	40.3
Argentina	7,930	2,895	12,555	16,037	27.7	7,167	10,103	41.0
Brazil	9,428	5,615	8,968	11,630	29.7	5,204	7,037	35.2
Paraguay	1,383	845	1,689	2,461	45.7	995	1,566	57.4
Uruguay	1,652	944	2,182	2,474	13.4	981	1,419	44.6
<i>Trade balance</i>								
Argentina	1,485	2,823	(2,615)	(3,611)	38.1	(1,640)	(2,682)	63.5
Brazil	(551)	(2,304)	5,018	5,723	14.1	2,392	3,422	43.0
Paraguay	(853)	(293)	(772)	(1,087)	40.8	(387)	(402)	4.0
Uruguay	(119)	(337)	(1,240)	(1,227)	(1.1)	(453)	(649)	43.2

Notes: ^a First Half, ^b Intrabloc exports and imports do not tally owing to differences in each country's records

Source: MERCOSUR Report (2009), No. 13, 31

In 1998, the total exportation of the bloc was USD 81.3 billion and in 2007 it was USD 224.1 billion, increased 175% in 9 years. On the other hand, the total importation of the bloc was USD 95.3 billion in 1998, and in 2007 it was USD 176.5 billion, a positive variation by 85% at the same period, much less than the increasing of the exportation.

The same thing happens if it focuses only on intrazone trade. In 1998, the total amount of exportation was USD 20.3 billion and in 2007 it was USD 32.4 billion, an increase of only 59%. This is one of the first results of this research: the exportation from the bloc to third countries increased significantly, compared with the intrazone exportation. In other words, MERCOSUR gained market share in the global market. "The countries in the bloc were able to expand their exports more rapidly, obtaining continuous increases in their market share. Indeed, between 2003 and 2007, MERCOSUR exports grew at an annual average rate of 20.3%, i.e. 3.9 p.p. above world imports." (MERCOSUR Report, 33). What can explain that the intrazone trade is losing

dynamics? It is possible to highlight some reasons: a) MERCOSUR countries are getting more extrazone market; b) The countries which are commodities buyer are buying more in recent years than before and MERCOSUR members are commodities exporter for excellence; c) Brazil represents 75% of total intrazone trade and perhaps the dynamism of its economy is turning its view to other regions, like Asia, for example, keeping in mind that China became the first Brazilian commercial partner in 2009.

On the opposite side of the good result shown above, there are some relevant points to bring to this discussion. First of all, the negotiation inside the bloc is a very hard task among the countries. Secondly, to negotiate with other economic blocs, or with a single country, a new trade agreement is another hard task because all of the MERCOSUR members must agree on subjects in each case. For example, the trade negotiation with Europe Union had the first round in 1999, and it has been stopped as of 2004. From 1999 to 2009, 10 years of hard work has come to nothing, any kind of agreement was made and a lot of efforts were wasted from both sides. It is well-known that there has remained a difference between MERCOSUR countries and European Union concerning the subsidies given by EU governments to their agriculture sector. In this regard, Brazil is putting all its hope in the DDA (Doha Development Agenda) conclusion to solve this problem. From this year, MERCOSUR will be out of the priority agenda of the European Union. What does it mean? It means that the EU will change their priority to another economic bloc, such as ASEAN or NAFTA. Also it means that MERCOSUR may lose a lot of opportunities and market share.

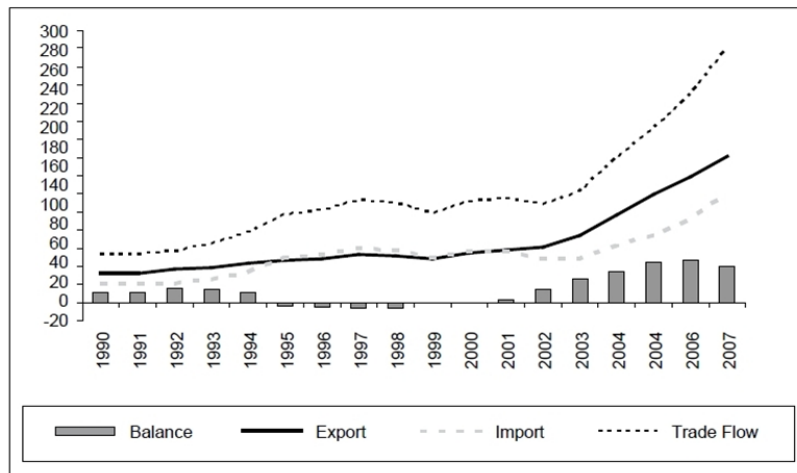
From 2004, there are rounds of negotiation between MERCOSUR and SICA (Honduras, Guatemala, Nicaragua, El Salvador and Panama) without any progress. Only FTA concluded by MERCOSUR and that just one signed with Israel in December 2007. The problem is that MERCOSUR needs to achieve a full accordance inside the bloc and then to negotiate with third party. From its nature, MERCOSUR has an

asymmetry in the size and market of member countries. Consequently, the differences of interests are huge among them.

In the next section, MERCOSUR from the Brazilian perspective will be discussed to know its results for Brazil.

IV. Brazilian Point of View - Results and Perspectives

From 1990 to 2002, Brazilian trade flows was at the same level almost all the time. But from 2002, the Brazilian exportation has experienced a strong growth as it is shown in <Graph 2>. In 2007, Brazilian exportation was USD 143.3 billion and the importation was USD 108.9 billion.



Source: MERCOSUR Report (2009), No.13, 40

(US\$ Billions)

<Graph 2> Brazil: Trade Flows in 1990-2007

Considering the intrazone trade only, it is possible to see the increase of Brazilian trade flow, but only in terms of its amount, not in percentage of participation, as it is shown on <Table 5>. In 1998, the

Brazilian exportation to MERCOSUR was USD 8.8 billion, representing 17.4% of MERCOSUR participation in Brazilian exports. In 2007, the total amount was USD 17.3 billion, but only 10.8% in participation of MERCOSUR.

〈Table 5〉 Brazil: Trade Flows with MERCOSUR Countries at Selected Times
(US\$ Millions)

	1998	2002	2006	2007	% Var. 2007/2006	2007 ^a	2008 ^a	% Var.
<i>Exports</i>								
MERCOSUR/ total (%)	17.4	5.5	10.1	10.8		10.4	11.5	
MERCOSUR	8,877	3,311	13,986	17,354	24.1	7,596	10,459	37.7
Argentina	6,747	2,347	11,740	14,417	22.8	6,311	8,589	36.1
Paraguay	1,249	560	1,234	1,648	33.6	699	1,112	59.2
Uruguay	881	413	1,013	1,288	27.2	587	758	29.1
<i>Imports</i>								
MERCOSUR/ total (%)	16.3	11.9	9.8	9.6		9.9	8.9	
MERCOSUR	9,428	5,615	8,968	11,630	29.7	5,204	7,037	35.2
Argentina	8,034	4,744	8,054	10,410	29.3	4,694	6,238	32.9
Paraguay	351	383	296	434	46.7	162	320	97.0
Uruguay	1,042	485	618	786	27.2	347	478	37.6
<i>Trade Balance</i>								
MERCOSUR	(551)	(2,304)	5,018	5,723	14.1	2,392	3,422	43.0
Argentina	(1,287)	(2,397)	3,686	4,007	8.7	1,617	2,351	45.4
Paraguay	898	177	938	1,214	29.5	536	793	47.7
Uruguay	(162)	(72)	394	502	27.4	239	279	16.7

Note: ^a First Half

Source: MERCOSUR Report (2009), No. 13, 42

On the other side, the Brazilian importation was exactly the same. The importation from MERCOSUR was USD 9.4 billion in 1998 (16.3%) and in 2007 it was USD 11.6 billion, but it only represents 9.6% of MERCOSUR participation in Brazilian importation.

What this figures can mean? It is possible to point out that Brazil is getting bigger global market share in its exportation, and, at the same time, the global market (outside of MERCOSUR) is getting bigger market share in the Brazilian domestic market. Is the Brazilian domestic

market more open to global products, or is it only the consequence of the Brazilian economic growth? Both answers are correct because the Brazilian domestic market is demanding more foreign products in the consequence of the real currency appreciation. The consumer and capital goods “have performed best in terms of quantities imported, a reflection of the rapid growth of investments and of the internal demand for durable goods, mainly automobiles and electrical and electronic goods, at far higher rates than GDP growth.” (MERCOSUR Report 2009, No. 13, 45). The imported goods arrive to the Brazilian costumers at cheaper prices. On the other hand, the Brazilian government program of income distribution is taking more people to the condition of consumption.

<Table 6> Brazil: Extrazone Trade Flows by Economic Bloc at Selected Times
(US\$ Millions)

	1998	2002	2006	2007	% Var. 2007/2006	2007 ^{a/}	2008 ^{a/}	% Var
<i>Exports</i>								
Extrazone/total (%)	82.6	94.5	89.9	89.2		89.6	88.5	
Extrazone	42,243	57,128	123,822	143,296	15.7	65,617	80,186	22.2
NAFTA	11,411	18,887	31,512	31,936	1.3	15,074	15,852	5.2
EU	15,250	15,609	31,045	40,428	30.2	18,178	22,146	21.8
LAIA ^{b/}	3,506	4,226	13,051	14,812	13.5	6,734	7,590	12.7
Asia	5,613	8,798	20,816	25,086	20.5	11,460	16,306	42.3
Other Countries	6,464	9,807	27,397	31,033	13.3	14,172	18,293	29.1
<i>Imports</i>								
Extrazone/total (%)	83.7	88.1	90.2	90.4		90.1	91.1	
Extrazone	48,287	41,628	82,375	108,991	32.3	47,433	72,273	52.4
NAFTA	16,008	11,760	17,355	22,575	30.1	10,250	14,035	36.9
EU	17,184	13,495	20,201	26,736	32.3	11,885	16,632	39.9
LAIA ^{b/}	1,959	2,033	6,020	6,972	15.8	3,195	4,566	42.9
Asia	7,881	7,996	22,887	30,715	34.2	13,041	21,481	64.7
Other Countries	5,254	6,344	15,912	21,993	38.2	9,063	15,560	71.7
<i>Trade Balance</i>								
Extrazone	(6,044)	15,500	41,447	34,305	(17.2)	18,184	7,912	(56.5)
NAFTA	(4,597)	6,927	14,157	9,361	(33.9)	4,823	1,817	(62.3)
EU	(1,934)	2,114	10,844	13,692	26.3	6,293	5,513	(12.4)
LAIA ^{b/}	1,547	2,194	7,031	7,840	11.5	3,540	3,024	(14.6)
Asia	(2,269)	802	(2,071)	(5,629)	171.9	(1,581)	(5,175)	227.4
Other Countries	1,209	3,463	11,485	9,040	(21.3)	5,109	2,733	(46.5)

Notes: ^{a/} First Half, ^{b/} With the exception of MERCOSUR and Mexico
Source: MERCOSUR Report (2009), No.13, 44

What all the figures of Brazilian trade shows is that Brazil is the main country in MERCOSUR, with around 75% of the total trade. Why, and then, Brazil joined the economic bloc? What are its advantages? In terms of trade and economy, MERCOSUR is losing its importance for Brazil. But, at the same time, there is one important reason that Brazil joined MERCOSUR, which is to bring politic stabilization to the region and to maintain peace on the borders with Uruguay, Paraguay and Argentina.

Is this price high? First of all, it is important to consider that Brazil is a commodity and natural resources seller and the global market is demanding commodities and natural resources. “That rapid change in the composition of Brazilian exports is due largely to the sharp increase in international commodity prices.” (MERCOSUR Report 2009, No. 13, 44-45). Secondly, Brazil will become an oil exporter very soon, and it will change the commercial power of Brazil in the global market. Thirdly, some countries, such as Chile, South Korea, Peru and US are setting a free trade agreement with several countries internationally. In case of Chile, the huge number of FTAs has brought big opportunities to Chile in the global market. In case of Brazil, there is no possibility in this field because Brazil cannot form a bilateral FTA, apart from MERCOSUR. What kind of opportunities has Brazil lost during this period from 1991 when MERCOSUR was established? According to WTO, “Regional Trade Agreements (RTAs) have become in recent years a very prominent feature of the Multilateral Trading System (MTS).” (WTO 2009b).

The surge in RTAs has continued unabated since the early 1990s. Some 421 RTAs have been notified to the GATT/WTO up to December 2008. Of these, 324 RTAs were notified under Article XXIV of the GATT 1947 or GATT 1994; 29 under the Enabling Clause; and 68 under Article V of the GATS. At that same date, 230 agreements were in force. If we take into account RTAs which are in force but have not been notified, those signed but not yet in force, those currently being negotiated, and those in

the proposal stage, we arrive at a figure of close to 400 RTAs which are scheduled to be implemented by 2010. Of these RTAs, free trade agreements (FTAs) and partial scope agreements account for over 90%, while customs unions account for less than 10 % (WTO 2009b).

In the near future, this huge number of trade agreements will produce a very relevant difference in international trade, especially taking into account that only 10% of these agreements refer to customs unions, and 90% of them are RTA, FTA and partial scope agreements.

In case of MERCOSUR “the four countries have been able to address most of the disputes that have arisen more or less successfully, either through new internal arrangements or the offer of side payments. Nonetheless, many problems, many derived from asymmetries among the partners, still persist and offer no easy solution.” (Manzetti 2000, 192).

According to Goveia (2008), “MERCOSUR, after expressive achievements in the congruency of interesting in the transition phase, that was demonstrated by the increased of the intrazone trade, is now under disagreements among its partners, including politics and economics, and it cannot overcome for the uncompleted customs union stage.” (Goveia 2008, 176).

In the same way of thinking that MERCOSUR is having internal problems is mentioned by Malamud, 2008:

After the completion of the schedule of automatic tariff reduction, however, the onset of economic crises ignited intra-regional conflicts and national leaders opted to up the rhetorical ante. Deepening, enlargement and institutional upgrading became obsessive topics as trade controversies multiplied and temporary barriers were erected and taken down time and again. The gap between those that defended the bloc for existential or identity reasons and those that understood it as a means to other ends became increasingly wider (Malamud 2008, 132).

What is possible to expect from the MERCOSUR's future? Here is necessary to mention that "as the last resort to save the life of MERCOSUR, contracting parties may choose the option to follow the suit of CACM and CAN to permit individual paths." (Kim 2009b, 50).

V. Final Considerations

There is a tendency of countries using trade agreements to gain new market, or to explore new opportunity in the global market.

Considering this huge figures of trade agreement worldwide, it is very difficult to understand why Brazil is almost out of this kind of global trend. MERCOSUR is formed by only four countries and as it is possible to see in this essay, the achievements are not so enthusiastic. It is not possible to measure how big could be the damage of Brazil to be in the MERCOSUR in the course of those years from 1991. In 2010, around 400 RTA will be implemented, and Brazil is out of them. Brazil is putting all of its hope in Doha Round, but the future will give the answer. That's for sure that Brazil is losing a lot of opportunities to be inside MERCOSUR, with so much different interests among the member countries. Perhaps the Brazilian future will be to have a downgrade in the MERCOSUR status to become a Regional FTA, like CACM and CAN.

So, this essay is an attempt to understand the Brazilian position to be a member of MERCOSUR. The figures of the Brazilian trade flows are showing that trade outside MERCOSUR has been growing more than intrazone from 1998 to 2007. Thus, Brazil is gaining global market share, even without participating in trade agreements outside MERCOSUR. It is possible to imagine all kind of opportunities that would happen to Brazil, if MERCOSUR will become a Regional FTA.

Abstract

MERCOSUR é um mercado comum na América do Sul, que é formado por Argentina, Brazil, Paraguai e Uruguai. Este foi estabelecido em 1991 e o acordo final foi assinado em 1994 através do Protocolo de Ouro Preto. A Globalização trouxe um novo modo de pensar o comércio e a integração regional. A integração regional é a maior tendência em virtude do alto nível de competição no mercado global. Os números do comércio entre os países membros do MERCOSUR mostra que o comércio intrazona cresceu de 1998 a 2007. Por outro lado, na perspectiva brasileira, os números estão mostrando uma posição diferente. A exportação brasileira para fora do MERCOSUR cresceu mais do que o comércio intrazona, provando que o Brasil está ganhando participação no mercado global com suas exportações. Números da Organização Mundial do Comércio mostram que existem cerca de 400 tratados de comércio que entrarão em vigor em 2010 no mercado global. E o Brasil está praticamente fora deles porque o Brasil precisa fazer acordos fazendo parte do MERCOSUR. O Brasil não pode assinar qualquer acordo de comércio como um país único. Assim, o Brasil poderá estar fora de grandes oportunidades que esse grande número de acordos pode representar.

Key Words: Trade Agreement, Regional Integration, Common Market, Global Market /
무역협정, 경제통합, 공동시장, 세계시장

논문투고일자: 2009. 12. 17

심사완료일자: 2010. 02. 08

게재확정일자: 2010. 02. 08

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