

New Tensions and New Options

By Eduardo Gudynas | November 11, 2003

Integration processes in Latin America have highlighted new topics and new challenges for the Southern Common Market (MERCOSUR). The trade bloc, formally created in 1991 (one year before NAFTA), comprises Argentina, Brazil, Paraguay, and Uruguay as full members, and Chile and Bolivia joined as associate members several years later.

MERCOSUR has adopted a series of economic and political objectives that have taken it beyond being merely a free trade agreement, to something resembling an imperfect customs union. Approximately 200 million persons live in the MERCOSUR area, making it the world's third-most-important trade bloc, after NAFTA and the European Union.

Following several years of growth marked by a dizzying expansion of regional trade, MERCOSUR was hit hard, first by devaluation in Brazil, and more recently by the Argentine crisis. Despite these setbacks, the bloc continues to move forward, especially in the political sphere, where it faces crucial tests in connection with the Free Trade Area of the Americas (FTAA) negotiations.

Brazil and the New Regional Emphasis

Both at the FTAA and in global negotiations, Brazil has sought to use MERCOSUR to leverage its negotiating power and project itself as a regional leader. This stance was first assumed by the government of Fernando Henrique Cardoso and has been reinforced by the current administration of Luiz Inacio "Lula" da Silva.

Under Lula, this position has been strengthened and more assertively defined. Brazil's current government has made it clear that the emphasis is no longer on Latin America as a whole but on South America. Lula recently said, "South America is my home," adding: "Mexico and Central America now have other interests; I think South America is closer to making the dream of integration a reality."

Hence, the search for new partners focuses on the Andean countries. Another important change is that there is now less insistence on the Southern Market reaching an agreement with the Andean Community of Nations and more on "expanding" MERCOSUR to include new Andean members. Though not expressed explicitly, there are insinuations

that the Andean Community has failed to mature into an integrated bloc whereas MERCOSUR has succeeded.

MERCOSUR's "expansion" has brought Peru into the group, and Venezuela is expected to be next. This approach is supported by Argentina's new government, headed by Néstor Kirchner, while it is viewed uneasily by Jorge Batlle's administration in Uruguay. To further strengthen these ties, Lula's government is promoting several integration agreements on infrastructure (such as bridges, highways, and power lines), most notably with Bolivia, Peru, and Venezuela.

An expanded MERCOSUR would have greater negotiating leverage vis-à-vis the FTAA, thereby increasing Brazil's importance. Some contested issues with the United States, such as agricultural protectionism or anti-dumping measures, could be more effectively dealt with by a larger MERCOSUR.

Many analysts and officials feel that the growth of MERCOSUR is precisely what worries Washington the most. Each time a step is taken in that direction, the United States counters with opposing measures. In the best-known case, just as Chile was going to join MERCOSUR as a full member, it received an invitation from the Clinton administration to begin negotiating a free trade agreement with the United States. This precedent is important to bear in mind, since it indicates that expanding free trade through new "associated" countries does not necessarily strengthen MERCOSUR.

The U.S. seems to be applying the same tactic with Peru. When Brazil and MERCOSUR came closer to reaching an association agreement with Peru, Washington hinted at the possibility of a U.S.-Peru free trade agreement. The consequences of this enticement were seen immediately. Despite strong domestic debate, Alejandro Toledo's government quickly withdrew from the Group of 20 led by Brazil and others



to counter the U.S.-EU proposal in the September World Trade Organization talks, and eagerly responded to Washington's invitation to negotiate.

Strengths and Weaknesses

Although the strategy promoted by Brazil to "expand" MERCOSUR has advantages for the notion of a "South American bloc," its weakness is that it pursues its objective through free trade agreements. MERCOSUR is expanding by adding new members through free trade pacts (as in the case of Peru, and in the negotiations with Venezuela.) Nevertheless, MERCOSUR's objectives include the establishment of a "common market" that goes beyond free trade and contains a strong political component. If MERCOSUR restricts itself to free trade, it will more closely resemble NAFTA than a pact allowing for strong political coordination, such as the one that now exists in Europe.

Political integration can be maintained as long as most parties to the agreement are "full members," but it is threatened as the number of associate members rises. The path to a common market succeeded while there were four full members and one or two trade associates. But if the current trend continues, the number of associate parties to the free trade arrangement will equal that of the four original partners. The agreement is thus gradually becoming a sort of "southern NAFTA."

Brazil's proposal would increase the number of members, but would not strengthen the agreement's political ties in the context of the FTAA. This is because the political agreements that are binding upon negotiators regarding production and external issues do not apply to trade associates. The arrangement raises the question of why associate Chile or Peru if those countries move forward with a trade policy consistent with Washington's proposal for the FTAA.

While U.S. pressure is a major source of tension, internal tensions arise primarily from two sources: from South American countries' apprehension about Brazil, and from resistance within Brazil to integration with supranational rules. Many of Brazil's neighbors continue to fear a certain Brazilian hegemony on a local scale. In the meantime, Brazil does not wish to relinquish any sovereignty to a system of supranational regulations that would impose rules above national laws. Although there has been much talk of a common MERCOSUR parliament, there are no concrete indications about the way to

achieve supranational laws. And, although a common bloc is being sought, it is not clear where and how Brazil will give in to the demands of its smaller neighbors. Lula insists that he intends to move in that direction, but exactly how he will do so remains unclear. Differences over dispute settlement within MERCOSUR and the absence of more efficient coordination partially explain the protests in Uruguay vis-à-vis Brazil, although another part of the explanation lies in the Uruguayan government's flirting with the Bush administration.

Further complicating matters is tension within the Brazilian government. The integrationist strategy proposed by Foreign Minister Celso Amorim and special adviser Marco Aurelio García run counter to the vision of the Ministries of Economy, Agriculture, and Industry, as well as that of several business sectors that are calling for greater flexibility in the FTAA negotiations.

Options in the Face of the FTAA

It is with these strengths and weaknesses that MERCOSUR will come to the FTAA Ministerial Meeting in Miami. The events of recent weeks have turned Brazil into the reverse image of the United States in these trade negotiations, both due to Brazil's own interests and due to the alignment of other important nations—including Mexico, Chile, and Colombia—with Washington.

Without additional support for its demands for U.S. concessions on hemispheric trade, MERCOSUR risks becoming isolated in those complex discussions. In fact, Brazil faces possible isolation both in the FTAA and within MERCOSUR. The negotiations in Miami will, then, have repercussions not only at the hemispheric level but also for the future of integration in the Southern Cone. MERCOSUR's future largely depends on the FTAA: If MERCOSUR remains confined to a free trade agreement while a hemispheric free trade agreement is simultaneously approved, MERCOSUR will lose its very purpose. Therefore, the solution for MERCOSUR is to further strengthen regional integration.

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